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CONSOLIDATED INCOME STATEMENT

for the period from 1 January to 31 December 2019

In EUR '000s/as indicated	Note	1.1.2019 – 31.12.2019	1.1.2018 – 31.12.2018
Revenue	4	2,932,544	2,897,466
Other operating income	5	67,276	100,704
Other own work capitalised	6	20,258	18,106
Cost of materials	7	– 2,036,334	– 1,993,739
Personnel expenses	8	– 236,450	– 219,700
Other operating expenses	10	– 320,499	– 361,653
Thereof loss allowances on financial assets and contract assets		– 39,482	– 46,666
Thereof without loss allowances on financial assets and contract assets		– 281,017	– 314,987
EBITDA [1]		**426,795**	**441,184**
Depreciation, amortisation and impairment	9	– 156,841	– 129,196
EBIT [2]		**269,954**	**311,988**
Profit or loss of equity-accounted investments	17	14,629	25,110
Thereof from share of profit or loss		34,595	44,343
Thereof from subsequent accounting from purchase price allocation		– 19,966	– 19,233
Interest and similar income	11	9,573	164
Interest and similar expenses	12	– 56,699	– 56,042
Other financial result	12	621	– 47,218
Financial result		**– 31,876**	**– 77,986**
Earnings before taxes		**238,078**	**234,002**
Income taxes	13	– 53,346	– 21,839
Consolidated profit		**184,732**	**212,163**
Consolidated profit attributable to shareholders of freenet AG	24	190,899	223,138
Consolidated profit attributable to non-controlling interests	24	– 6,167	– 10,975
Earnings per share in EUR (basic)	**14.1**	**1.49**	**1.74**
Earnings per share in EUR (diluted)	**14.2**	**1.49**	**1.74**
Weighted average number of shares outstanding in thousand (basic)	24	128,011	128,011
Weighted average number of shares outstanding in thousand (diluted)	24	128,011	128,011

[1] EBITDA represents earnings before interest, taxes, depreciation, amortisation and impairment, financial result and income taxes.
[2] EBIT represents earnings before financial result and income taxes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January to 31 December 2019

In EUR '000s	Note	1.1.2019 – 31.12.2019	1.1.2018 – 31.12.2018
Consolidated profit		**184,732**	**212,163**
Currency translation differences		23	688
Currency translation differences from subsequent accounting for equity-accounted investments	17.1	1,924	4,604
Income tax recognised in other comprehensive income		– 29	– 65
Other comprehensive income/to be reclassified to the income statement in future periods		**1,918**	**5,227**
Change in fair value of investments in equity instruments		74,334	– 127,287
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. to IAS 19 (2011)	29	– 11,539	– 769
Other shares of the profit or loss of equity-accounted investments	17.1	– 1,263	809
Income tax recognised in other comprehensive income		2,388	2,156
Other comprehensive income/not to be reclassified to the income statement in future periods		**63,920**	**– 125,091**
Other comprehensive income		**65,838**	**– 119,864**
Consolidated total comprehensive income		**250,570**	**92,299**
Consolidated total comprehensive income attributable to shareholders of freenet AG		256,737	103,274
Consolidated total comprehensive income attributable to non-controlling interests		– 6,167	– 10,975

CONSOLIDATED BALANCE SHEET

as of 31 December 2019

ASSETS

In EUR '000s	Note	31.12.2019	31.12.2018
Non-current assets			
Intangible assets	15, 16, 39	501,878	525,355
Lease assets	2.5	451,964	0
Goodwill	15, 16	1,383,474	1,380,056
Property, plant and equipment	15, 16, 39	143,830	398,824
Equity-accounted investments	17	785,637	811,808
Deferred income tax assets	18	130,226	158,094
Trade accounts receivable	21	68,678	52,480
Other receivables and other assets	21	122,921	128,023
Other financial assets	21	268,480	126,218
Contract acquisition costs	19	297,240	304,238
		4,154,328	**3,885,096**
Current assets			
Inventories	20	75,819	105,965
Current income tax assets	23	2,084	2,046
Trade accounts receivable	21	225,753	253,914
Other receivables and other assets	21	201,734	226,394
Other financial assets	21	46,187	34,905
Liquid assets	22	133,692	126,332
		685,269	**749,556**
		4,839,597	**4,634,652**

EQUITY AND LIABILITIES

In EUR '000s	Note	31.12.2019	31.12.2018
Equity			
Share capital	24.1	128,061	128,061
Capital reserve	24.2	737,536	737,536
Cumulative other comprehensive income	24.3	– 74,282	– 140,120
Consolidated net retained profits	24.4	521,031	535,124
Equity attributable to shareholders of freenet AG		**1,312,346**	**1,260,601**
Non-controlling interests in equity	24.5	9,255	20,152
		1,321,601	**1,280,753**
Non-current liabilities			
Lease liabilities	2.5, 28	473,272	0
Other liabilities and deferrals	26	107,378	115,922
Other financial liabilities	26	31,048	306,638
Borrowings	28	1,428,009	1,699,424
Pension provisions	29	98,787	89,173
Other provisions	30	41,206	47,042
		2,179,700	**2,258,199**
Current liabilities			
Lease liabilities	2.5, 28	80,004	0
Trade accounts payable	26	465,230	523,174
Other liabilities and deferrals	26	402,175	436,343
Other financial liabilities	26	64,546	51,167
Current income tax liabilities	27	43,991	34,722
Borrowings	28	265,610	23,476
Other provisions	30	16,740	26,818
		1,338,296	**1,095,700**
		4,839,597	**4,634,652**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January to 31 December 2018

In EUR '000s	Share capital	Capital reserve	Revaluation reserve	Currency translation differences	Currency translation differences from subsequent accounting for equity-accounted investments
As of 1.1.2018 as reported	**128,061**	**737,536**	**– 164**	**255**	**– 11,956**
Effects of the transition to IFRS 15 and IFRS 9 at freenet	0	0	0	0	0
Effects of the transition to IFRS 15 and IFRS 9 at Sunrise	0	0	0	0	0
Reclassification	0	0	164	0	0
As of 1.1.2018 restated	**128,061**	**737,536**	**0**	**255**	**– 11,956**
Dividend payment	0	0	0	0	0
Consolidated profit	0	0	0	0	0
Change in fair value of investments in equity instruments[1]	0	0	0	0	0
Other shares of the profit or loss of equity-accounted investments[1]	0	0	0	0	0
Recognition of actuarial gains and losses acc. to IAS 19 (2011)[1]	0	0	0	0	0
Foreign currency translation[1]	0	0	0	688	0
Foreign currency translation from subsequent accounting for equity-accounted investments[1]	0	0	0	0	4,534
Subtotal: Consolidated total comprehensive income	0	0	0	688	4,534
As of 31.12.2018 Consolidated total comprehensive income	**128,061**	**737,536**	**0**	**943**	**– 7,422**

[1] Figures are shown offset against income tax recognised in other comprehensive income.

For further details, please refer to our explanations in note 24, Equity.

Cumulative other comprehensive income						
Change in fair value of investments in equity instruments	Revaluation reserve in accordance with IAS 19	Other shares of the profit or loss of equity-accounted investments	Consolidated net retained profits	Equity attributable to shareholders of freenet AG	Non-controlling interests in equity	Equity
0	**– 20,548**	**12,157**	**586,433**	**1,431,774**	**31,127**	**1,462,901**
0	0	0	– 70,368	– 70,368	0	– 70,368
0	0	0	7,139	7,139	0	7,139
– 164	0	0	0	0	0	0
– 164	**– 20,548**	**12,157**	**523,204**	**1,368,545**	**31,127**	**1,399,672**
0	0	0	– 211,218	– 211,218	0	– 211,218
0	0	0	223,138	223,138	– 10,975	212,163
– 125,348	0	0	0	– 125,348	0	– 125,348
0	0	797	0	797	0	797
0	– 535	0	0	– 535	0	– 535
0	0	0	0	688	0	688
0	0	0	0	4,534	0	4,534
– 125,348	– 535	797	223,138	103,274	– 10,975	92,299
– 125,512	**– 21,083**	**12,954**	**535,124**	**1,260,601**	**20,152**	**1,280,753**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January to 31 December 2019

In EUR '000s	Share capital	Capital reserve	Currency translation differences	Currency translation differences from subsequent accounting for equity-accounted investments	Change in fair value of investments in equity instruments
As of 1.1.2019 as reported	**128,061**	**737,536**	**943**	**– 7,422**	**– 125,512**
Effects of the transition to IFRS 16, freenet	0	0	0	0	0
As of 1.1.2019 restated	**128,061**	**737,536**	**943**	**– 7,422**	**– 125,512**
Dividend payment	0	0	0	0	0
Deconsolidation of subsidiaries	0	0	0	0	0
Derecognition of option liabilities in connection with the sale of subsidiaries	0	0	0	0	0
Consolidated profit	0	0	0	0	0
Change in fair value of investments in equity instruments[1]	0	0	0	0	73,208
Other shares of the profit or loss of equity-accounted investments[1]	0	0	0	0	0
Recognition of actuarial gains and losses acc. to IAS 19 (2011)[1]	0	0	0	0	0
Foreign currency translation[1]	0	0	23	0	0
Foreign currency translation from subsequent accounting for equity-accounted investments[1]	0	0	0	1,895	0
Subtotal: Consolidated total comprehensive income	0	0	23	1,895	73,208
As of 31.12.2019	**128,061**	**737,536**	**966**	**– 5,527**	**– 52,304**

[1] Figures are shown offset against income tax recognised in other comprehensive income.

Cumulative other comprehensive income					
Revaluation reserve in accordance with IAS 19	Other shares of the profit or loss of equity-accounted investments	Consolidated net retained profits	Equity attributable to shareholders of freenet AG	Non-controlling interests in equity	Equity
– 21,083	**12,954**	**535,124**	**1,260,601**	**20,152**	**1,280,753**
0	0	– 774	– 774	0	– 774
– 21,083	**12,954**	**534,350**	**1,259,827**	**20,152**	**1,279,979**
0	0	– 211,218	– 211,218	0	– 211,218
0	0	0	0	– 4,730	– 4,730
0	0	7,000	7,000	0	7,000
0	0	190,899	190,899	– 6,167	184,732
0	0	0	73,208	0	73,208
0	– 1,244	0	– 1,244	0	– 1,244
– 8,044	0	0	– 8,044	0	– 8,044
0	0	0	23	0	23
0	0	0	1,895	0	1,895
– 8,044	– 1,244	190,899	256,737	– 6,167	250,570
– 29,127	**11,710**	**521,031**	**1,312,346**	**9,255**	**1,321,601**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the period from 1 January to 31 December 2019

In EUR '000s	Note	1.1.2019 – 31.12.2019	1.1.2018 – 31.12.2018 restated
Earnings before interest and taxes (EBIT)		**269,954**	**311,988**
Restatements			
Depreciation, amortisation and impairment of non-current assets	9	156,841	129,196
Dividends received from equity-accounted investments	17	41,462	36,912
Gains on the sale of subsidiaries		– 66	0
Gain on disposal of non-current assets		– 363	– 25,527
Increase in net working capital not attributable to investing or financing activities	19, 20, 25, 28, 29, 31	– 49,376	– 38,902
Proceeds from the cash repayment of financial assets under leases		14,940	0
Capitalisation of contract acquisition costs		– 306,315	– 336,622
Amortisation of contract acquisition costs		313,313	321,973
Tax payments	13, 18	– 30,554	– 29,541
Income from interest and other financial result		2,408	206
Interest paid		– 48,012	– 40,813
Cash flows from operating activities	**32.1**	**364,232**	**328,870**
Payments to acquire property, plant and equipment and intangible assets		– 45,155	– 57,193
Proceeds from disposal of intangible assets and property, plant and equipment		4,553	13,850
Proceeds/payments to acquire subsidiaries	36	3,052	– 12,439
Payments from deconsolidation of subsidiaries	36	– 1,108	0
Payments into equity of equity-accounted investments	17	0	– 75
Payments to acquire other equity investments		– 173	– 277,746
Proceeds from sale of other equity investments		0	500
Cash flows from investing activities	**32.2**	**– 38,831**	**– 333,103**
Payments to company owners and minority shareholders		– 211,218	– 211,218
Proceeds from new borrowings	28	0	376,303
Cash repayments of borrowings	28	– 31,000	– 332,302
Cash repayments of lease liabilities	28	– 74,603	– 21,754
Cash repayments of finance costs due to the prolongation of borrowings		0	– 1,830
Cash repayments of finance costs due to the acquisition of other equity investments		0	– 1,450
Payments of other financing costs		– 1,220	0
Cash flows from financing activities	**32.3**	**– 318,041**	**– 192,251**
Net change in cash funds		**7,360**	**– 196,484**
Cash funds at beginning of period		**126,332**	**322,816**
Cash funds at end of period		**133,692**	**126,332**

Composition of cash funds

In EUR '000s	31.12.2019	31.12.2018
Liquid assets	133,692	126,332
	133,692	**126,332**

Composition of free cash flow (FCF) [1]

In EUR '000s	31.12.2019	31.12.2018
Cash flows from operating activities	364,232	328,870
Payments to acquire property, plant and equipment and intangible assets	– 45,155	– 57,193
Proceeds from disposal of intangible assets and property, plant and equipment	4,553	13,850
Cash repayments of lease liabilities	– 74,603	– 21,754
FCF	**249,027**	**263,773**

[1] Free cash flow is an alternative performance measures that is defined in the "Corporate management" section of the Group management report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR FINANCIAL YEAR 2019

1 GENERAL INFORMATION

1.1 BUSINESS ACTIVITY AND ACCOUNTING STANDARDS

freenet AG ("the company"), the parent company of the Group ("freenet"), is headquartered in Büdelsdorf, Germany. The company was founded in 2005 and is registered with Kiel District Court under HRB 7306. The Group provides telecommunications, radio and multimedia services in Germany and focuses mainly on mobile communications/mobile Internet and digital lifestyle.

The consolidated financial statements for financial year 2019 were prepared in accordance with the IFRSs promulgated by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as applicable in the European Union as at 31 December 2019. The company also complied with the provisions of German commercial law to be applied in accordance with section 315e HGB.

The consolidated financial statements were prepared in euros, the company's functional currency. All amounts are stated in thousands of euros (EUR '000s) or millions of euros (EUR million), as applicable.

The consolidated financial statements were prepared on the basis of historical cost – subject to the limitation that certain financial assets are shown at fair value. The annual financial statements of the companies included in the consolidated financial statements were prepared using uniform accounting policies. They have been prepared as at the same balance sheet date as the consolidated financial statements.

The consolidated financial statements are submitted to the Federal Gazette.

The following table shows the new or modified standards (IAS/IFRS) and interpretations (IFRIC) whose application is mandatory from 1 January 2019 and their respective effects on the Group:

Standard/Interpretation		Effective date	Adopted by the EU Commission	Effects
IFRS 16	Leases	01.01.19	31.10.17	Material effects
IAS 28	Amendment to IAS 28: Long-term interests in associates and joint ventures	01.01.19	08.02.19	No material effects
IAS 19	Amendment to IAS 19: Plan Amendment, Curtailment and Settlement	01.01.19	14.03.19	No material effects
IFRIC 23	Uncertainty over Income Tax Treatments	01.01.19	23.10.18	None
Various	Annual Improvements to IFRSs: (2015 –2017 Cycle) – IFRS 3, IFRS 11, IAS 12 and IAS 23	01.01.19	12.12.17	No material effects

The Group has adopted all accounting pronouncements required to be applied from 1 January 2019. The following information is provided on the new financial reporting standard IFRS 16 (Leases):

In January 2016, the IASB issued the standard IFRS 16 (Leases). IFRS 16 replaces the previous standard regarding the recognition of leases IAS 17 as well as the interpretations IFRIC 4 (Determining whether an Arrangement Contains a Lease), SIC-15 (Operating Leases – Incentives) and SIC-27 (Evaluating the Substance of Transactions Involving the Legal Form of a Lease). This standard is effective for periods starting on or after 1 January 2019.

The material innovations introduced by IFRS 16 relate to recognition at the lessee. For all leases, the lessee must recognise assets for the acquired right-of-use assets and liabilities for the assumed payment obligations. No distinction is made between operating leases and finance leases. Practical expedients are permitted for low-value leased assets and for short-term leases. The regulations regarding the recognition of assets at the lessor remain virtually unchanged. The overriding objective is to enable the reader to assess the impact of existing leases on the company.

The freenet Group analysed the effects of initially applying IFRS 16 in the course of a Group-wide project. In the freenet Group, the new requirements impact in particular on the recognition and measurement of lessee arrangements that previously were classified as operating and finance leases. The following categories of lease were identified: Site leases, co-location leases, shop/store leases, TV and Media network infrastructure, motor vehicles and other leased assets.

On initial application, the freenet Group elected to apply the modified retrospective approach in accordance with IFRS 16.C5(b), i.e. the right-of-use assets and lease liabilities as at 31 December 2018 were measured using the leases in effect as at 31 December 2018. As permitted by IFRS 16.C10(d), initial direct costs were excluded from the measurement of the right-of-use asset at the date of initial application. The discounting of the lease liability was generally determined by applying maturity-specific incremental borrowing rates of interest, as we cannot determine the interest rates on which the leases are based. As at 1 January 2019, the incremental borrowing rates used varied between 0.7 per cent and 2.5 per cent. In accordance with IFRS 16.C7, comparative information for financial year 2018 will not be restated in the 2019 consolidated financial statements. Under the option in IFRS 16.5, short-term leases with a term of no more than twelve months and leases for which the underlying asset is of low value were not recognised. The freenet Group has made use of the option under IFRS 16.C10(b) and, at the time of initial application, netted the lease assets with provisions for encumbered leases which were recognised in the balance sheet as of 31 December 2018.

As at 31 December 2018, a master lease agreement was classified as a finance lease under IAS 17 in the amount of the minimum lease obligation. In accordance with IFRS 16.C11, the freenet Group elected to also apply the modified retrospective approach described in IFRS 16.C5(b) to this lease. In material cases, the carrying amount of the right-of-use asset and the lease liability at the date of initial application is therefore the carrying amount calculated when measuring the leased asset and the lease liability in accordance with IAS 17 immediately before that date (IFRS 16.C8(b)). Consequently, the

leased assets presented as property, plant and equipment in the amount of 248.1 million euros as at 31 December 2018 were be reclassified to the new balance sheet item Lease assets at the date of initial application. At the same time, the liabilities presented under other financial liabilities (237.2 million euros) and trade accounts payable (23.0 million euros) as at 31 December 2018 were reclassified to the new balance sheet item Lease liabilities as at 1 January 2019.

In addition, IFRS 16 had the following material effects on the consolidated balance sheet as at 1 January 2019:

- Leases previously recognised as operating leases will for the first time be recognised in a separate line item, Lease assets, in the amount of 269.3 million euros.
- Other financial assets will increase by 98.4 million euros due to the recognition of receivables from subleases classified as finance leases.
- Deferred tax assets will rise by 0.2 million euros (deferred taxes for temporary differences relating to the effect of transitioning to IFRS 16 recognised in equity).
- Equity (consolidated net retained profits) will decline by 0.8 million euro
- Lease liabilities will for the first time be presented in a separate line item in the amount of 370.5 million euro
- Other provisions will decrease by 1.6 million euros due to lower provisions for contingent losses

Overall, the transition to IFRS 16 as at 1 January 2019 will result in an increase in total assets/total equity and liabilities of 368.1 million euros. IFRS 16 therefore increased EBITDA reported for financial year 2019 by 43.3 million euros. With regard to the statement of cash flows, IFRS 16 did not have any effect on the amount of free cash flow.

All other financial reporting standards applicable as at 1 January 2019 have no effect or no significant effect on these consolidated financial statements of freenet AG.

The following table shows the new or modified standards (IAS/IFRS) and interpretations (IFRIC) whose application was not yet mandatory in the 2019 financial year and their respective effects on the Group:

Standard/Interpretation		Effective date	Adopted by the EU Commission	Effects
IFRS 3	Amendment to IFRS 3: Definition of a Business	01.01.20	Open	No material effects
IAS 1, IAS 8	Amendments to IAS 1 and IAS 8: Definition of Materiality	01.01.20	29.11.19	No material effects
Conceptual Framework	Updating References to the Conceptual Framework for Financial Reporting	01.01.20	29.11.19	No material effects
IFRS 9, IFRS 7	Amendments to IFRS 9 and IFRS 7: Interest Rate Benchmark Reform	01.01.20	15.01.20	No material effects
IFRS 17	Insurance Contracts	01.01.21	Open	None

1.2 BASIS OF CONSOLIDATION

The consolidated financial statements include as subsidiaries all companies which are controlled by the Group. For a complete list of all companies included in freenet AG's consolidated financial statements, please consult the disclosures made in accordance with section 315e HGB in note 37.

IFRS 11 defines two forms of joint arrangements, depending on the form of the rights and obligations resulting from the joint arrangement in question: joint operations and joint ventures. freenet AG has reviewed its joint arrangements and identified them as joint ventures.

Associates are all entities over which the Group has a significant influence but not control, generally accompanied by a shareholding of between 20 per cent and 50 per cent of the voting rights.

The companies 01019 Telefondienste GmbH, 01024 Telefondienste GmbH, freenet.de GmbH, freenet Cityline GmbH, freenet Datenkommunikations GmbH, 01050.com GmbH, new directions GmbH, freenet Direkt GmbH, mobilcom-debitel GmbH, MobilCom Multimedia GmbH, mobilcom-debitel Shop GmbH, Stanniol GmbH für IT & PR, Gravis – Computervertriebsgesellschaft mbH („GRAVIS“), freenet Energy GmbH, freenet digital GmbH, iLove GmbH, Lorena Medienagentur GmbH, Ojom International GmbH, Vene International GmbH, klarmobil GmbH, callmobile GmbH, freenet Shopping GmbH, mobilcom-debitel Logistik GmbH, Taunus Beteiligungs GmbH, Media Broadcast GmbH, Media Broadcast Services GmbH, Media Broadcast TV Services GmbH and The Cloud Networks Germany GmbH will make use of the exemption rules specified in section 264 (3) HGB for the annual financial statements for the period ending on 31 December 2019.

In the 2019 financial year, the basis of consolidation was expanded to include The Cloud Group consisting of the entities The Cloud Networks Germany GmbH, Munich, and The Cloud Networks Nordic AB, Stockholm, Sweden.

1.3 CONSOLIDATION PRINCIPLES

Companies are included for the first time in the consolidated financial statements (full consolidation) with effect from the date on which the possibility of control over the subsidiary is transferred to the Group. They are deconsolidated as of the time when such control has ceased to apply. The company is said to control another entity if it has power over an investee, is exposed to variable returns from its investment and can influence the level of returns as a result of its power. Control is normally associated with a share of more than 50 per cent of the voting rights. In order to assess whether a situation of control exists, however, due consideration is also given to the existence and impact of potential voting rights, rights resulting from other contractual agreements, and, if applicable, any other facts and circumstances that indicate the possibility of control. The Group therefore also carries out an assessment to determine whether the prevailing situation constitutes control if the parent company holds fewer than 50 per cent of the voting rights but is able to direct the company’s most important activities. A situation of control might also apply as a result of, for example, voting rights agreements or enhanced minority rights. freenet AG carries out a reassessment if there are indications that there have been changes to one or more of the criteria of control. Amounts attributable to non-controlling interests are disclosed separately on the balance sheet.

Acquisition accounting is based on the purchase method.

The cost of acquiring a business combination is determined by the sum of the fair values of the assets given, the liabilities incurred and/or acquired and any equity instruments issued for acquisition purposes. In addition, the acquisition costs include the fair values of all recognised assets and liabilities that result from an agreement concerning a contingent consideration.

All the acquired company’s identifiable assets, liabilities and contingent liabilities that meet the recognition criteria stipulated by IFRS 3.37 are disclosed separately at their fair value, irrespective of the extent of any minority interests. For each corporate acquisition, the Group decides on an individual basis whether the non-controlling interests in the acquired company are recognised at fair value or on the basis of the percentage of net assets attributable to the acquired company.

Acquisition-related costs are recognised as expenses when they are incurred.

When options are granted to enable non-controlling shareholders to tender further shares in Group companies, recognition of the options depends on how opportunities and risks arising from these shares are attributable. If the opportunities and risks are transferred to the freenet Group, this is reflected in a corresponding reduction in the share of the Group’s equity attributable to the non-controlling shareholders. In such cases, only a financial liability in relation to the option obligation is recognised. If the opportunities and risks are retained by the non-controlling shareholder, the equity which is attributable to the non-controlling shareholders is recognised. In this case, the financial liability relating to the option obligation reduces the equity attributable to the shareholders of freenet AG. The financial liability is initially measured at the present value of the estimated repurchase amount on the expected date of exercise and subsequently measured at amortised cost using the effective interest rate method and taking into account any possible changes in the repurchase amount.

Transactions with non-controlling interests without loss of control are treated as transactions with equity providers of the Group. If the acquisition of a non-controlling interest results in a difference between the amount that is paid and the corresponding share in the carrying amount of the subsidiary's net assets, such a difference is recognised in equity. Profits and losses which occur upon the disposal of non-controlling interests are also recognised in equity.

Goodwill is recognised as the excess of the cost of the business combination over the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date. Any excess of the interest in the net fair value of the acquiree over cost shall be recognised immediately through profit or loss.

Investments in associates as well as joint ventures are disclosed in the consolidated financial statements using the equity method, with the carrying amounts of the investments being increased or reduced annually by the proportion of the changes in equity at the respective company attributable to the freenet Group. The Group's share of the profits and losses of associates and joint ventures is recognised in the income statement as well as in other comprehensive income from the date of acquisition. Dividend payments received reduce the carrying amount of the investment in the associate. Goodwill arising from the acquisition of associates and joint ventures is not shown separately. If the Group's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group discontinues recognising its share of further losses. After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

If the Group loses control over a company, the remaining share is remeasured at fair value and the resulting difference is recognised in profit or loss. In addition, all amounts shown under other comprehensive income in relation to that company are recognised as if the parent company had directly disposed of the related assets and liabilities. This means that a profit or loss that had previously been recognised in other comprehensive income is reclassified from equity to profit or loss.

Intra-group profits and losses, revenue, expenses and income as well as trade accounts receivable and liabilities between the consolidated companies are eliminated. The same applies to the elimination of intra-group profits and losses for joint ventures and associates.

2 ACCOUNTING POLICIES

The following accounting policies were applied for the preparation of these consolidated financial statements. The accounting policies have generally been applied consistently to the previous year. Regarding the changes, please refer to note 1.1, Business activity and accounting standards, of these notes. In this regard, the following sections explain both the old accounting policies applied for the 2018 financial year and the new accounting policies applied for the 2019 financial year.

The consolidated statement of comprehensive income in the consolidated financial statements for 2019 shows for the first time subtotals for EBITDA (426,795 thousand euros; previous year: 441,184 thousand euros) and EBIT (269,954 thousand euros; previous year: 311,988 thousand euros), with EBIT corresponding to the operating result presented in the previous year. These disclosures were added in the 2019 financial year because both figures are important key financials for the Group that are frequently discussed in the annual report.

2.1 RECOGNITION OF REVENUE AND EXPENSES

The Group mainly provides services for a short period. Revenue is recognised when the services have been rendered in full, provided that the amount of revenue can be determined reliably and it is sufficiently probable that a future economic benefit will accrue to the company. Services rendered but not yet invoiced are accrued separately in the consolidated financial statements. Revenue is disclosed net of value added tax, discounts granted and other price reductions. Revenue comprises the fair value of the consideration that has been, or will be, received for the sale of products and services in the course of normal business activity.

The majority of the Group's revenue is generated from a large number of end customers, with the remaining revenue accounted for by corporate customers.

Supplementary notes on revenue recognition (for a breakdown of operating segments, please refer to note 3, Segment reporting):

Revenue in the Mobile Communications segment is generated by the range of mobile communications services on offer, one-off provision charges and the sale of mobile terminals and accessories. Mobile Communications revenue (voice communication as well as data transmission) consists of monthly charges, charges for special features and connection and roaming charges. The charges generated by mobile communications services are recognised as revenue over the period during which the services are provided. Revenue from the sale of mobile terminals and accessories is recognised when the products are delivered to the customer or the distributor.

Revenue recognition under IFRS 15 is based on a multi-step model where the first steps are to identify the contract with the customer and the performance obligations in the contract. The aggregate amount of consideration agreed for those performance obligations (the transaction price) must then be determined and allocated to the separate performance obligations on the basis of the relative stand-alone selling prices. Finally, revenue must be recognised for each performance obligation identified when, or as, the performance obligation is satisfied by transferring a promised good or a promised service (asset). An asset is considered to have been transferred once the customer has obtained control of that asset. A distinction is made between performance obligations satisfied at a point in time (e.g. delivery of mobile communications hardware) and performance obligations satisfied over time (e.g. provision of mobile communications services over a period of 24 months). Under the new guidance, the amount of revenue recognised in many cases no longer matches the amount invoiced to the customer particularly in connection with multi-element arrangements involving several different contractual services. As a result, changes may arise with respect to the amount and timing of revenue recognition and revenue adjustments due to contract modifications, among other things.

In the case of particular agency services provided by dealers, for whom the amount of sales commission depends on the newly acquired customers remaining in the Group's customer base and also on the level of future Group revenue generated with the newly acquired customers, the purchased services are recognised as a deferred item based on their most likely value and recognised through profit or loss over the average term of the associated end customer contract using the straight-line method.

The revenue in the TV and Media segment is generated by the rendering of services to end customers in the IPTV and DVB-T2 fields and also by the operation and service of broadcast-related solutions for business users in the radio and media sector. Revenue is recognised at the time at which the service is provided to the customer. In the TV and Media segment, revenue from delivering hardware to end customers is recognised at a point in time, although this revenue is currently insignificant in amount.

2.2 INTANGIBLE ASSETS

Goodwill is tested for impairment at least once a year and whenever there is an indication of impairment, and is measured at its original cost less cumulative impairment.

For this purpose, goodwill is allocated to cash generating units. It is allocated to those cash generating units or groups of cash generating units which are expected to derive a benefit from the combination that gave rise to the goodwill. With regard to the specific breakdown, please refer to note 15, Intangible assets, lease assets, property, plant and equipment, and goodwill as well as note 16, Impairment testing for non-monetary assets in accordance with IAS 36.

Trademarks with a significant carrying amount are assets with an indefinite useful life that are not amortised but tested for impairment annually or whenever there are indications of impairment. The indefinite useful life was chosen if no constant reduction of value is discernible in relation to this asset and no limitation of the useful life had to be considered in terms of time either.

The other trademarks, on the other hand, have definable terms. These trademarks are carried at their historical cost and are amortised on a straight-line basis over their anticipated useful lives of 48 to 180 months. On the balance sheet date of 31 December 2019, the remaining useful life of these trademarks was 134 months.

Licences, software and right-of-use assets are shown at cost and are amortised on a straight-line basis over their anticipated useful lives, which is generally three years for software and three to ten years for licences.

Costs incurred in developing and/or maintaining software programs are generally expensed in the year in which they are incurred. If the costs are clearly attributable to a definable software product that can be used by the company, and if the product's overall expected economic benefit is greater than the costs incurred, the costs are recognised as intangible assets in the category "internally generated software". Development costs are not capitalised until technical and economic feasibility can be demonstrated. These costs include, for example, the personnel costs of the software development team and any expenses incurred for services and fees during the production of the asset. They also contain an appropriate portion of relevant overheads. Capitalised software development costs amortised over the duration of their likely useful lives of three to seven years using the straight-line method.

Customer relationships are amortised on a straight-line basis over a period of 60 to 262 months. On the balance sheet date of 31 December 2019, the remaining useful life of the customer relationships recognised was between 108 and 228 months.

Distribution rights are amortised on a straight-line basis over the expected duration of the underlying agreements (36 months). On the balance sheet date of 31 December 2019, the remaining useful life of the distribution rights recognised was nine months.

2.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at cost less straight-line depreciation and, if applicable, impairments. The useful lives assumed for the depreciation of assets correspond to the assets' expected useful lives within the company. In the calculation of depreciation, any residual values were disregarded on grounds of immateriality.

The residual carrying amounts and useful economic lives are reviewed as at each balance sheet date and adjusted where applicable.

Depreciation of property, plant and equipment is generally based on the following useful lives:

Asset	Useful life
Buildings	10 to 33 years
Technical equipment and machinery	5 to 15 years
Motor vehicles	6 years
IT equipment	3 to 8 years
Telecommunications equipment and hardware	2 to 5 years
Leasehold improvements	3 to 10 years

2.4 IMPAIRMENT OF NON-MONETARY ASSETS

Non-monetary assets are always considered impaired if the carrying amount exceeds the recoverable amount. The recoverable amount is defined as the higher of asset's fair value, less costs to sell, and the value in use.

An impairment test must be carried out if events or changed circumstances (triggering events) indicate that the asset's value might be impaired. Goodwill and intangible assets with indefinite useful lives must be tested for impairment once a year in accordance with IAS 36.

If the reason for impairment no longer applies, the asset's impairment is reversed to a figure not exceeding amortised cost. This is not applicable to goodwill, as reversals of impairment are not permitted here.

2.5 LEASES

2.5.1 freenet as lessee

The Group generally decides on a case-by-case basis whether assets are leased or purchased. Agreements that convey the right to use an asset for a particular specified period of time in return for a payment or a series of payments are classified as leases.

For site leases, co-location leases, shop/store leases, TV and Media network infrastructure, motor vehicles and other assets, the Group as lessee recognises a lease liability at the present value of the lease payments required to be made over the lease term. Present value is determined by including fixed lease payments, variable index-based payments, reasonably certain extension options, exercise prices of purchase options and payments of penalties for terminating the lease early, less any lease incentives received. At the commencement date (the date on which the asset is made available for use), the lease payments are measured using the incremental borrowing rate specific to the lease term. Over the period to the end of the lease, the lease liability is reduced by the principal portion of the lease payment; corresponding interest expense is presented in the financial result.

At commencement of the lease, the Group as lessee also recognises a right-of-use asset at cost. Cost is determined, first of all, from the amount of the lease liability and may be increased by any initial direct costs, costs to be incurred in dismantling and removing the asset and any lease payments made by the lessee at or before the commencement date and therefore not included in the lease liability. Right-of-use assets are depreciated over the term of the lease or, if shorter, over the normal useful life of the leased asset concerned.

When an extension option is exercised and therefore the lease term changes, the right-of-use asset and the lease liability are adjusted by the same amount at the date of the change in the term and the interest rate is revised at that date. Lease modifications that result from a change in an index-based rate are also accounted for by adjusting the right-of-use asset and the lease liability, but using the interest rate originally used.

The breakdown lease assets is as follows:

In EUR millions	31.12.2019	Opening balance sheet pursuant to IFRS 16 01.01.2019
Right-of-use assets, site leases	237.2	277.8
Right-of-use assets, shops / stores [1]	110.5	124.4
Right-of-use assets, co-location leases	79.8	83.4
Right-of-use assets, network infrastructure	10.7	12.6
Right-of-use assets, motor vehicles	1.1	1.6
Right-of-use assets, other	12.7	17.6
Total	**452.0**	**517.4**

[1] As of 31 December 2019, this item includes operating leases from subleasing of shop space to franchise partners in the amount of 32.8 million euros.

Additions to lease assets are reported at 35.5 million euros in the 2019 financial year. In the year under review, depreciation of right-of-use assets is broken down as follows:

In EUR millions	2019
Site leases	30.6
Shops / stores	21.1
Co-location leases	10.5
Network infrastructure	2.1
Motor vehicles	1.0
Other	5.4
Total	**70.7**

Other operating expenses include expense relating to short-term leases (11.1 million euros) and expense relating to leases of low-value assets (0.3 million euros). The variable lease payments not included in the lease liabilities and also contained in other operating expenses are of minor significance.

The following table shows the reconciliation of future minimum lease payments from operating leases reported as of 31 December 2018 in accordance with IAS 17 with the lease liabilities recognised as of 1 January 2019 in accordance with IFRS 16:

In EUR millions	
Obligations under operating leases disclosed as of 31 December 2018	**440.5**
Discounted using the incremental borrowing rate as of the date of initial application of IFRS 16	374.6
plus finance lease liabilities recognised as of 31 December 2018	260.2
less short-term leases recognised as other operating expenses	– 11.1
less low-value leases recognised as other operating expenses	– 0.3
plus other adjustments	7.3
Lease liabilities recognised as of 1 January 2019	**630.7**

Interest expense on lease liabilities amounted to 17.2 million euros in the reporting period. We provide the following breakdown of the maturities of the lease liabilities:

In EUR millions	31.12.2019
1 year or less	80.0
More than 1 year up to and including 5 years	278.1
More than 5 years	195.1
Total	**553.3**

In financial year 2019, total cash outflows for leases amounted to 103.1 million euros.

In the event that extension options not currently recognised (because it was concluded that they were not reasonably certain to be exercised) were exercised, this would result in cash outflows of 431.9 million euros in addition to the lease liabilities currently recognised.

The measurement methods for 2018 differed as follows:

Leases that the Group enters into as the lessee were classified as either operating leases or finance leases, depending on whether all the significant risks and opportunities associated with the ownership of the leased asset are transferred. Payments made in connection with an operating lease (possibly net after taking account of incentive payments made by the lessor) were expensed as cost of materials or other operating expenses using the straight-line method over the duration of the lease.

In accordance with IAS 17, the leased assets attributable to the Group as the beneficial owner under finance leases were recognised at the lower of fair value of the leased asset and the present value of the minimum lease payments, and are depreciated over the shorter of their normal useful life and the term of the lease. Accordingly, the liability arising from the lease was recognised and reduced by the repayment portion of the lease instalments that have already been paid. The interest portion of the lease instalments was recognised in the financial result. In connection with the acquisition of the Media Broadcast Group in financial year 2016, a master lease agreement was classified as a finance lease in the amount of the minimum lease obligation. This is a master lease agreement with an infrastructure provider relating to the use of radio infrastructures (such as towers and masts) and radio locations and other areas, due to run until 31 December 2027.

2.5.2 freenet as lessor

The regulations regarding the recognition of assets at the lessor remain virtually unchanged. The freenet Group is the lessor under subleases of sites in the TV and Media segment, shop space, motor vehicles and other assets.

If a lease transfers substantially all the risks and rewards, it is a finance lease. In this case, a receivable is recognised in other financial assets at an amount equal to the net investment in the lease (31 December 2019: 82.2 million euros). The receivables contained in this item mainly relate to subleases of sites in the TV and Media segment. The corresponding interest income is presented in the financial result and amounted to 2.0 million euros in financial year 2019. Income relating to variable lease payments not included in the measurement of the net investment is insignificant in amount.

The future (undiscounted) cash inflows from finance leases are due as follows:

In EUR millions	31.12.2019
2020	16.7
2021	15.3
2022	13.8
2023	12.3
2024	11.9
2025 ff.	18.8
Future (undiscounted) cash inflows	**88.8**
Unearned interest income	– 6.6
Receivables from finance leases	**82.2**

Lease income from operating leases where the Group is the lessor is recognised in profit or loss on a straight-line basis over the lease term and results mainly from subleasing of shop space to franchise partners. Lease income from operating leases of 6.4 million euros is shown in other operating income in the 2019 financial year.

The future (undiscounted) cash inflows from non-cancellable operating leases are due as follows:

In EUR millions	31.12.2019
2020	6.3
2021	4.6
2022	2.9
2023	1.3
2024	0.7
2025 ff.	0.4
Future (undiscounted) cash inflows	**16.2**

2.6 INTERESTS IN SHARES AND JOINT VENTURES

The carrying amount of investments in associates and joint ventures is recognised on the basis of the associate's or joint venture's annual or consolidated financial statements in accordance with IFRSs prepared in accordance with the Group's accounting policies. With regard to the equity method, please refer to note 1.3, Consolidation principles.

2.7 FINANCIAL INSTRUMENTS

2.7.1 Definition and classification

A financial instrument is any contract that simultaneously gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity. For the purposes of measurement, financial assets and financial liabilities are classified as follows:

- Financial assets measured at amortised cost
- Financial assets measured at fair value through profit or loss
- Financial assets measured at fair value through other comprehensive income
- Liabilities measured at amortised cost

The classification of financial assets and liabilities is based on the characteristics of the contractual cash flows of the financial assets and the business model that management uses to manage the financial assets. Management determines how the financial assets and financial liabilities are classified upon initial recognition.

2.7.2 Financial assets measured at amortised cost

The Group classifies these assets in the following three categories:

Liquid assets

Liquid assets consist of cash and cash equivalents comprising cash, demand deposits and other current highly liquid financial assets with a maximum original term of three months.

Trade accounts receivable

Trade accounts receivable are amounts owed by customers for goods and services provided in the ordinary course of business. They are classified as current assets, with the exception of those which do not fall due until twelve months after the balance sheet date. The latter are reported as non-current trade accounts receivable. The Group holds trade accounts receivable in order to collect the contractual cash flows; they are subsequently measured at amortised cost using the effective interest method.

Non-derivative financial assets

The Group measures its non-derivative financial assets at amortised cost if the financial asset is held as part of a business model according to which financial assets are held for the purpose of collecting the contractual cash flows. In addition, the contract terms result in cash flows consisting exclusively of principal and interest payments on the principal amount outstanding. This category includes lease receivables, receivables from trustees, collateral and other contract assets reported in other financial assets.

2.7.3 Financial assets measured at fair value through profit or loss

The Group classifies these assets in the following two categories:

Trade accounts receivable

The freenet Group carries trade accounts receivable held for trading purposes at fair value through profit or loss. These include trade accounts receivable from multiple-element arrangements (mobile phone upgrade option) sold to a credit institution. Please refer to the explanation regarding factoring in note 33.6, Transfer of financial assets.

Other equity instruments

The company measures investments in equity instruments at fair value through profit or loss if the Group has elected not to recognise changes in fair value in other comprehensive income. As at the reporting date, other equity investments reported in other financial assets are assigned to this category.

2.7.4 Financial assets measured at fair value through other comprehensive income

The Group classifies these assets in the following category:

Other equity instruments

Other equity instruments measured at fair value through other comprehensive income are financial assets not held for trading purposes which the freenet Group has irrevocably chosen upon initial recognition to report in this category. This category includes equity investments and securities serving as security for non-current pension obligations reported in other financial assets.

2.7.5 Liabilities measured at amortised cost

Financial liabilities are based on contractual agreements regarding the payment of liquid assets or the rendering of other financial assets to a third party. A financial liability is recognised when freenet becomes the contracting party. The financial liabilities as of the balance sheet date are disclosed in the trade accounts payable, borrowings and other financial liabilities items.

2.7.6 Measurement of financial instruments

Regular purchases and sales of financial assets are recognised as at the trade date, i.e. the day on which the Group enters into an obligation to buy or sell the asset. Financial assets are measured at fair value upon acquisition. Transaction costs increase or decrease the initial carrying amount if the financial asset is not measured at fair value with changes in value being recognised through profit or loss.

Financial assets are broken down into two classification categories: financial assets measured at amortised cost and financial assets measured at fair value. If financial assets are measured at fair value, income and expenses can be recognised either at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income (FVTOCI). The classification is made on initial recognition of the financial asset and is based on the business model for managing financial assets and the characteristics of the contractual cash flows of the financial asset.

A financial asset shall be measured at amortised cost if the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through other comprehensive income if the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that are not measured at amortised cost or at fair value through other comprehensive income must be measured at fair value through profit or loss.

Upon initial recognition, financial liabilities measured at amortised cost are shown at the fair value of the consideration received less the transaction costs associated with borrowing. In the subsequent period, the financial liabilities are measured at amortised cost using the effective interest rate method. Profits and losses are recognised through profit or loss when the liabilities are derecognised or as a result of amortisation. Non-current financial liabilities are recognised at amortised cost. Any differences between historical cost and the repayment amount is amortised using the effective interest method. Current financial liabilities are recognised at their repayment or settlement value. Loan liabilities are classified as current liabilities provided that the Group does not have the unconditional right to postpone settlement of the liability to a point in time at least twelve months after the balance sheet date. Derivative financial instruments are measured on the basis of future cash flows. Accordingly, derivative financial instruments can also be shown as financial liabilities.

The measurement methods for 2018 differed as follows: Financial liabilities arising from finance leases were shown at the present value of the minimum lease payments in accordance with IAS 17.

2.7.7 Impairment of financial assets

The Group applies the simplified approach provided for by impairment rules to measure expected credit losses. Accordingly, expected credit losses anticipated over the term of all trade accounts receivable, lease receivables and contract assets are recognised upon the initial recognition of these items. Impairments of financial assets are based on assumptions regarding default risk and expected loss rates on the basis of historical losses and the Group's past experience as well as forward-looking estimates at the end of the financial year.

No defaults have occurred on lease receivables in the past. As a result, the expected loss rates do not reflect historical default rates, but are instead based on current and forward-looking information (e.g. remaining maturity of the lease receivables, benchmark information). The impairment loss identified was insignificant, however, and was not recognised.

The carrying amount of the receivables is reduced by using an allowance account. If reasonable assessments indicate that the receivable is no longer recoverable, the receivable is derecognised against the allowance account. Subsequent payments in relation to previously derecognised amounts are credited to the income statement against impairment losses on trade accounts receivable.

The general approach is applied by the Group to non-derivative assets. The expected credit loss model uses a three-stage approach to allocate loss allowances. In general, all instruments are classified in Stage 1 when originated or acquired. For these items, the expected loss resulting from possible default events during the next twelve months following the reporting date must be recognised as an expense. Interest is recognised based on the gross carrying amount, i.e. the effective interest method must be applied based on the carrying amount before deduction of expected credit losses. Stage 2 includes all instruments that have experienced a significant increase in default risk since initial recognition as at the reporting date. The

loss allowance must reflect the present value of all expected losses over the remaining term of the instrument. Interest is recognised based on the gross amount, i.e. the effective interest method must be applied based on the carrying amount before deduction of expected credit losses. Significant indications of impairment include the following:

- Significant deterioration in the expected payments and expected performance of the debtor
- Significant deterioration in the credit quality of other instruments of the same debtor
- Actual or expected deterioration of economic, financial, regulatory or technological circumstances relevant to the creditworthiness of the debtor

If, in addition to a significant increase in default risk, there is also objective indication of impairment as at the reporting date (Stage 3), the loss allowance is also measured based on the present value of the expected losses for the remaining term. The interest recognised must be adjusted in subsequent periods so that the interest income must be calculated based on the net carrying amount in the future, i.e. the carrying amount after deduction of expected credit losses. Objective indications of impairment include the following:

- Significant financial difficulties of the issuer or debtor
- Breach of contract such as a default or delinquency in interest or principal payments
- An increased probability that the debtor will become bankrupt or will have to go through some other restructuring process

Cash and cash equivalents are also subject to the impairment rules in IFRS 9. Default risk is substantially reduced by diversifying cash and cash equivalents among various major banks.

No loss allowances are recognised for expected credit losses in the case of equity instruments. An objective indication of impairment is a significant or permanent decline in the fair value below cost. If no market prices are available, other measurement approaches such as the discounted cash flow method are used to determine whether recognition of impairment losses is necessary.

2.7.8 Derecognition of financial assets

The freenet Group derecognises a financial asset only when the contractual rights to the cash flows from the financial asset expire or the financial asset and substantially all of the risks and rewards of ownership of the asset are transferred to a third party. For details, please refer to the comments in note 33.6, Transfer of financial assets.

2.7.9 Derecognition of financial liabilities

The freenet Group derecognises financial liabilities only when these are repaid, i.e. when the obligation stipulated in the contract is either settled or cancelled or has expired. In the event of an exchange of debt instruments with substantially different contract terms or in the case of substantial changes in the contract terms of an existing liability, the transaction is treated as the repayment of the original financial liability and the recognition of a new financial liability. A gain or loss from repayment of the original financial liability is recognised in profit or loss.

2.7.10 Netting of financial instruments

Financial assets and liabilities are netted and shown as a net amount in the balance sheet only if there is a legal entitlement to such treatment and if the Group intends to settle on a net basis or to use the asset and settle the liability simultaneously.

2.8 INVENTORIES

Inventories are shown at the lower of cost and the net realisable value on the balance sheet date. The net realisable value is defined as the estimated selling price less costs to be incurred.

2.9 FOREIGN CURRENCY TRANSACTIONS

The items included in the annual financial statements of each Group company are measured based on the currency corresponding to the currency of the primary economic environment in which the company operates (functional currency). The consolidated financial statements are prepared in euros, which is the reporting currency of freenet AG.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of the transaction. Gains and losses resulting from the fulfilment of such transactions, and also from the process of translating monetary assets and liabilities denominated in foreign currencies as at the closing date, are recognised in the income statement. Minor volumes of foreign currency transactions were carried out in the financial year 2019.

Sunrise Communications Group AG, Zurich, Switzerland (referred to in the following as “Sunrise”) has been included as an associated company in the consolidated financial statements of freenet AG. In this connection, the average exchange rate is used for currency translation in relation to the shares in the consolidated profit of Sunrise as well as the subsequent write-down recognised in relation to the shadow purchase price allocation. The residual carrying amount established for the disclosed hidden reserves from the shadow purchase price allocation is translated using the rate prevailing on the closing date. Currency translation differences resulting from the accounting for equity-accounted investments are shown in the consolidated statement of comprehensive income under the item, Currency translation differences from subsequent accounting for equity-accounted investments. In the event of the loss of significant influence on Sunrise (for example, through the sale of shares), these currency translation differences are recognised in the income statement.

The earnings and balance sheet items of all Group companies that have a functional currency other than the euro are translated into euros using the modified closing date method. Any resulting currency translation differences are recognised in other comprehensive income and disclosed as a cumulative figure in equity.

2.10 EQUITY

Ordinary shares, capital reserves, revaluation reserves, consolidated net retained profits and non-controlling interests are shown as equity. After the deduction of applicable current taxes, costs of capital increases are recognised directly in equity under capital reserves.

2.11 PENSION PROVISIONS

Pension provisions are recognised and measured in accordance with IAS 19. The pension provision shown in the balance sheet is equivalent to the actuarial present value of the defined benefit obligation on the balance sheet date less the fair value of the plan assets. The present value of the defined benefit obligation is calculated every year by an independent actuarial expert using the projected unit credit method. This method takes account not only of the pensions and acquired vested rights known on the balance sheet date; it also includes anticipated future increases in pensions and salaries.

Actuarial gains and losses resulting from empirical adjustments and changes in actuarial assumptions are recognised in other comprehensive income in the period in which they arise.

Differences between the theoretical and actual income from plan assets are recognised in other comprehensive income in the period in which they arise.

Pension commitments are subject to the regulations of the German Company Pensions Act. If the pension plans provide for pension benefits, there is the biometric risk of longevity. There are further risks in terms of pension adjustment obligations due to the development of inflation as well as salary-linked commitments related to the development in salaries.

Past service costs are immediately recognised in profit or loss. The service cost is shown under personnel expenses and the interest portion of the addition to provisions is shown in net finance costs.

Contributions to defined contribution plans are recognised in the income statement in the year in which they occur.

2.12 PROVISIONS

Provisions are recognised for legal or constructive obligations towards third parties of uncertain timing and/or amount which arise as a result of past events, where it is more likely than not that settlement of the obligation will lead to an outflow of assets and where a reliable estimate of the extent of the obligation can be made. The provisions are measured using the best possible estimate of the obligation as at the balance sheet date, taking the discounting of non-current obligations into account.

If there are a number of similar obligations, the probability of an outflow of resources is determined on the basis of the group of these obligations. A provision is also recognised as a liability if the probability of an outflow of resources relating to individual obligations included in this group is low.

In accordance with IAS 16, the costs expected for the obligation to dismantle and remove transmission installations and leasehold improvements are included in the costs of these items. In accordance with IAS 37, a provision is therefore recognised to cover the present value of these obligations if an outflow of resources is likely; this provision is recognised at the time at which the obligations arise. Changes in the measurement of an existing provision, in other words changes in the settlement value and/or the discount rate, are recognised by means of an adjustment to the carrying amount of the transmission installations and leasehold improvements (upper limit: recoverable amount; lower limit: zero).

Restructuring provisions basically comprise termination benefits paid to employees. Provisions for potential losses mainly relate to tariffs with negative margins and vacancy costs.

There are semi-retirement obligations in accordance with the Altersteilzeitgesetz (Semi-Retirement Act – AltTZG) of 23 July 1996 in line with the block model. The semi-retirement phase cannot begin before the employee's 55th birthday. During the semi-retirement phase, the employee's monthly semi-retirement net salary is normally topped up to 85 per cent (or 83 per cent for agreements signed after 1 October 2012) of the theoretical monthly full-time salary less statutory deductions. A discount rate of 0.09 per cent and a salary raise of 2.25 per cent p.a. have been used as the basis for measuring the semi-retirement obligations. No consideration has been given to any potential in this respect. The obligations have been netted with the fair values of the corresponding plan assets. If the fair value of the plan assets is higher than the obligations, the surplus is shown under the receivables and other assets.

The provisions for obligations relating to long-term work accounts are measured using the same assumptions as those applicable for the provisions for pension obligations. Long-term work accounts are set up to ensure that time accounts are balanced in the long term. The obligations are reduced by granting leave of absence at full pay. The obligations have been netted with the fair values of the corresponding plan assets. If the fair value of the plan assets is higher than the obligations, the surplus is shown under the receivables and other assets.

2.13 EMPLOYEE INCENTIVE PROGRAMMES

In financial year 2019, three significant long-term incentive programmes ("LTIP programmes") for employees were in place in the Group.

The accounting policies of these employee incentive programmes are described below:

On 26 February 2014, agreements concerning the contracts of employment that grant LTIPs (hereinafter referred to as "Programme 2") were signed by freenet AG with the members of the Executive Board.

In the previous year, agreements were signed to grant new LTIPs (hereinafter referred to as "Programme 3") on the occasion of the extension of an Executive Board member's employment contract and the appointment of new Executive Board members.

In addition, the freenet Group maintains two further employee incentive programmes (hereinafter referred to as "Other employee incentive programmes").

In LTIP programmes, an LTIP account is maintained for each beneficiary; in each financial year, depending on the extent to which defined objectives for the financial year in question have been attained, credit or debit entries are made in the accounts in the form of phantom shares. Then, within a predetermined period of time, payouts less taxes and charges can be made for each financial year, depending on the balance in the respective LTIP account. The amount of these payments is dependent on various factors, including the relevant share price at the time of the payout. The provision is measured at the fair value of the phantom shares that are likely to vest. The corresponding expense is shown under personnel expenses. For details, please refer to our explanations in note 25, Employee incentive programmes.

2.14 DEFERRED AND CURRENT INCOME TAXES

Deferred taxes are recognised using the liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts and on tax loss carryforwards. Deferred taxes are measured using tax rates and tax laws enacted or substantively enacted at the balance sheet date that are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets on deductible temporary differences are recognised at the amount for which deferred tax liabilities exist. If the amount of deferred tax assets on deductible temporary differences exceeds this value, they are recognised only to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised. Deferred tax assets on existing tax loss carryforwards are also recognised only to the extent that it is probable that future taxable profit will be available against which they can be utilised. The expected future profits are based on the company's forecast of earnings before taxes applicable on the balance sheet date.

Deferred tax liabilities arising from temporary differences in connection with investments in subsidiaries and associates are recognised unless the timing of the reversal of the temporary differences can be determined by the Group and it is probable that the temporary differences will not reverse in the foreseeable future due to this influence.

Current tax expenses are calculated based on the German tax regulations applicable at the balance sheet date or in the near future. Management regularly reviews tax returns, particularly with respect to interpretable matters, and, where appropriate, recognises provisions based on the amounts expected to be paid to the tax authorities.

2.15 JUDGEMENTS, FORWARD-LOOKING ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

The presentation of the net assets, financial position and results of operations in the consolidated financial statements depends on the recognition and measurement methods used and on forward-looking assumptions and estimates. The actual amounts may differ from these estimates. The significant estimates and associated assumptions set out below, as well as any uncertainties with regard to the chosen accounting policies, are of crucial importance for a correct understanding of the underlying risks of financial reporting as well as the impact that these estimates, assumptions and uncertainties might have on the consolidated financial statements.

The measurement of property, plant and equipment and intangible assets involves estimates for determining the fair value at the time of acquisition if the assets were acquired as part of a business combination. The anticipated useful life of such assets must also be estimated.

When determining the lease term relevant to measurement in the shops/stores category, it is always assumed that all extension options are reasonably certain to be exercised (due to operational considerations). As of a certain term, there may also be a blanket extension to the lease based on forward-looking assumptions.

For the purposes of measuring subleases in the TV and Media segment, the end of the lease term is determined by distinguishing by location (investor locations until 31 July 2027; other locations until 30 June 2026).

The Group Treasury department makes sure that the incremental borrowing rate used to discount the lease liability is determined on a quarterly basis. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term the funds necessary to obtain the asset in question.

With regard to the forward-looking assumptions made within the framework of the tests relating to potential goodwill impairments (carrying amount as of 31 December 2019: 1,383.5 million euros; previous year: 1,380.1 million euros) as well as impairments of intangible assets with an indefinite useful life (carrying amount as of 31 December 2019: 293.2 million euros; previous year: 293.2 million euros), please refer to note 16.

A sensitivity analysis regarding the impairment tests for the assets allocated to the cash generating unit (CGU) “Mobile Communications” has established that the fair value less costs to sell would decline by approximately 472 million euros if the WACC were to be increased by 0.5 percentage points and would increase by approximately 604 million euros if the WACC were to decline by 0.5 percentage points, and that, if EBIT were to be reduced or increased by 10 per cent in the planning period, the fair value less costs to sell would decrease by approximately 886 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 1,131 million euros (if the WACC simultaneously were to be reduced by 0.5 percentage points); this would not result in any impairment with regard to the assets allocated to this CGU, especially in case of the negative scenarios.

A sensitivity analysis regarding the impairment tests for the assets allocated to the “TV” CGU has established that the fair value less costs to sell would decline by approximately 83 million euros if the WACC were to be increased by 0.5 percentage points and would increase by approximately 105 million euros if the WACC were to decline by 0.5 percentage points, and that, if EBIT were to be reduced or increased by 10 per cent in the planning period, the fair value less costs to sell would decrease by approximately 160 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 206 million euros (if the WACC simultaneously were to be reduced by 0.5 percentage points); this would not result in any impairment with regard to the assets allocated to this CGU, especially in case of the negative scenarios.

A sensitivity analysis regarding the impairment tests for the assets allocated to the “Online” CGU has established that the fair value less costs to sell would decline by approximately 7 million euros if the WACC were to be increased by 0.5 percentage points and would increase by approximately 9 million euros if the WACC were to decline by 0.5 percentage points, and that, if EBIT were to be reduced or increased by 10 per cent in the planning period, the fair value less costs to sell would decrease by approximately 16 million euros (if the WACC simultaneously were to be increased by 0.5 percentage points) or increase by 19 million euros (if the WACC simultaneously were to be reduced by 0.5 percentage points); this would not result in any impairment with regard to the assets allocated to this CGU, especially in case of the negative scenarios.

The other equity instruments measured at fair value through profit or loss do not include listed shares for which there is an active market. Their fair value is determined using recognised actuarial methods. The underlying assumptions regarding future developments rely on the Group’s judgement.

Impairment losses on financial assets are based on assumptions regarding default risk and expected loss rates. In preparing these assumptions and selecting the input factors for calculating the impairment losses, the Group exercises its judgement based on its past experience and forward-looking estimates at the end of the financial year.

With regard to the accrual of purchased services from sales commissions for the various products offered by the Group, estimates are made on the basis of past experience to assess the probability with which final commissions, which can no longer be cancelled, become payable.

For multiple-element arrangements, the following material judgements, forward-looking assumptions, and uncertainties involved in estimation apply:

Measuring contractual performance obligations involves identifying the individual customer contracts and grouping them into portfolios based on certain criteria. A portfolio is defined as a set of aggregated contracts with uniform characteristics. Discretion plays a part in selecting these criteria (the assessment of whether uniformity exists and the decision on the number of portfolios).

The first step is identifying the performance obligations within customer contracts (or after their aggregation in portfolios) and their relative individual selling prices. These are estimated based on transactions conducted in the past (such as hardware sales and offers of mobile communications services over 24 months). In the next step, the net contract position is calculated taking into account other contract components: If the relative stand-alone selling prices of a contract component exceeds the transaction price, the transaction price is reallocated. The resulting net contract position of a contract (or after its aggregation in a portfolio) is reversed on a pro rata basis over the underlying contract term depending on the relevant performance dates or periods. Measurement of the net contract position is subject to certain assumptions. Uncertain future contract events, which cannot be influenced by the freenet Group, are anticipated according to their weighted likelihood of occurrence. Such contract events include premature contract termination, cancellation, bad debt losses, contract modifications, and the exercise of contractual (material) rights such as those arising from product vouchers.

The following material judgements, estimates and forward-looking assumptions are made with regard to accounting for multiple-element arrangements:

- Forward-looking assumptions in determining the expected future customer contract term for the amortisation period of contract acquisition costs and bonuses and commission of network operators for specific periods
- Assessment of whether there is a significant financing component
- Judgements and forward-looking assumptions in determining whether certain cost items constitute incremental contract extension costs, the reimbursement of which is expected in the future
- Judgements regarding the assessment of commissions and bonuses received by network operators, specifically
  - which portions thereof must be recognised in revenue as separable individual performance components immediately upon performance,
  - which portions thereof constitute an immediate reduction of the cost of materials due to their nature as a discount, and
  - which portions thereof can be considered discounts granted over the underlying customer contract term and therefore reduce the cost of materials on a pro rata basis.
- Judgements and estimates in determining the equivalent value of brokerage services in indirect sales in order to obtain the carrying amount of “consideration payable to a customer”.

The recognition and calculation of provisions depend on estimates. In particular, provisions for legal disputes are recognised on the basis of the assessment by the lawyers representing the Group companies.

With regard to the recognition of provisions for contingent losses in relation to anticipated losses from negative-margin tariffs, assumptions were made largely with respect to how long customers will remain in these tariffs in the future.

With regard to the assumptions and estimates made in the measurement model used for determining the provision for the LTIP programme as at 31 December 2019, please refer to note 25.

With regard to pension provisions and similar obligations, note 29 describes how forward-looking assumptions have been made for the measurement of the provisions for pensions and similar obligations. This involves the estimation of a discount rate, the pension trend, the assessment of the future development of the beneficiary’s pensionable income and an assessment of the beneficiary’s life expectancy. A sensitivity analysis came to the conclusion that if the discount rate were to increase by 1.0 percentage points, the present value of the funded and unfunded obligations would be reduced by 17,033 thousand euros, while a decrease of 1.0 percentage points in the discount rate would increase the present value of the funded and unfunded obligations by 22,167 thousand euros. With regard to further sensitivity analyses pertaining to the pension obligations, please refer to note 29.

There are commercial transactions for which it is not possible to determine the definitive taxation during the normal course of business. The Group determines the amount of the provisions for anticipated tax audits on the basis of estimates as to whether, and if so to what extent, additional income taxes will become due. Insofar as the definitive taxation for these transactions differs from the figure originally assumed, this will have an impact on the current and deferred income taxes in the period in which the taxation is definitively determined.

The deferred tax assets in relation to loss carryforwards are based on corporate planning for the four subsequent financial years involving forward-looking assumptions about, for example, the macroeconomic trend and the development of the telecommunications market. With regard to the extent of the recognised deferred taxes on loss carryforwards and also the extent of the loss carryforwards in relation to which no deferred tax assets have been recognised, please refer to note 18. A sensitivity analysis carried out in relation to the deferred tax assets has established that the deferred tax assets would increase by approx. 18.4 million euros or decrease by approx. 18.4 million euros if the trade income or corporation tax income were to increase or decrease by 10 per cent in the relevant planning period.

2.16 NON-CURRENT ASSETS HELD FOR SALE

Discontinued operations and non-current assets held for sale, which are classified under IFRS 5 as held-for-sale, are shown at the lower of carrying amount and fair value less costs to sell if it is generally more likely that their carrying amount can be realised by way of a sale rather than by further use. At the time of reclassification to discontinued operations and non-current assets held for sale, the assets are no longer subject to depreciation or amortisation.

The assets held for sale or the held-for-sale group of assets are reclassified to “Continuing operations” when the criteria of IFRS 5 are no longer satisfied. The assets or the group of assets are shown at the lower of carrying amount less depreciation, amortisation or remeasurements which would have been carried out if the assets or group of assets had not been classified as discontinued operations, and the recoverable amount at the time of reclassification. The adjustments to the measurement of the group of assets are shown in the income statement as part of Continuing operations.

2.17 LIMITED COMPARABILITY

Comparability with the consolidated financial statements as of 31 December 2018 is significantly impaired due to the initial application of IFRS 16 (Leases) as of 1 January 2019. In this context, please refer to the extensive explanations in note 1.1, Business activity and accounting standards, in the notes to the consolidated financial statements.

3 SEGMENT REPORTING

IFRS 8 stipulates that by means of internal management, operating segments must be distinguished from Group units whose operating results are reviewed regularly by the company’s main decision-making body with regard to decisions affecting the allocation of resources to this segment and the measurement of its profitability.

As its main decision-making body, the Executive Board organises and manages the company on the basis of the differences between the individual products and services offered by the company. As the Group performs its business operations almost entirely in Germany, its business is not organised or managed based on geographical regions. The Group was active in the following operating segments in the financial year 2019:

- Mobile Communications:
  - Activities as a mobile communications service provider – marketing of mobile communications services (voice and data services) from the mobile communications network operators Deutsche Telekom, Vodafone and Telefónica Deutschland in Germany
  - Based on the network operator agreements entered into with these network operators, a range of the company's own network-independent services and tariffs as well as a range of network operator tariffs
  - Sale/distribution of mobile communications devices as well as additional services for mobile data communications and digital lifestyle
  - Rendering of sales services
  - Sunrise activities (areas of activity of Sunrise: mobile communications, landline, Internet as well as digital TV)
- TV and Media:
  - Rendering of services to end users in the field of DVB-T2
  - Planning, project management, installation, operation, service and marketing of broadcast-related solutions for business clients in the radio and media sectors
  - Rendering of services, mainly to end users, in the field of IPTV
- Other/Holding:
  - Rendering of portal services such as e-commerce/advertising services (these essentially comprise the offer of online shopping and the marketing of advertising space on websites), of payment services for end customers as well as various digital products and entertainment formats for downloading and displaying and use on mobile devices
  - Development of communication solutions, IT solutions and other services for corporate customers
  - Range of narrowband voice services (call-by-call, preselection) and data services
  - Rendering of sales services

The "Other/Holding" segment includes other business activities in addition to operating activities. This mainly comprises the holding activities of freenet AG (with the rendering of services within the Group in central areas, such as legal, human resources and finance) as well as areas which cannot be clearly allocated to operating segments. The segment revenue of 61.6 million euros (previous year: 65.3 million euros) reported for the "Other/Holding" segment in 2019 is attributable to operating activities (62.5 million euros; previous year: 66.1 million euros) and other business activities (– 0.9 million euros; previous year: – 0.8 million euros). Of the figure of 46.0 million euros (previous year: 45.8 million euros) reported for gross profit for 2019 for the "Other/Holding" segment, 47.3 million euros (previous year: 47.1 million euros) is attributable to the operating activities and – 1.3 million euros (previous year: – 1.3 million euros) is attributable to the other business activities. The EBITDA of – 14.0 million euros (previous year: – 11.0 million euros) reported for the "Other/Holding" segment for 2019 was accounted for by operating activities to the extent of 14.1 million euros (previous year: 15.9 million euros) and by other business activities in the amount of – 28.1 million euros (previous year: – 26.9 million euros).

The segments provide, or used to provide, services to the other operating segment. If there are equivalent external market prices for internally offered services, these market prices are used as internal transfer prices. The transfer prices for non-marketable services are generally based on the costs incurred (plus overhead surcharge).

Income and expenses are allocated to the segments on the basis of selected criteria and commercial relevance. For purposes of segment reporting, the recognition and measurement of the allocated expenses and income do not differ from the recognition and measurement in the consolidated balance sheet and the consolidated income statement, as was the case last year.

A breakdown by individual products or services of revenue earned with third parties is shown in note 4, Revenue. A more extensive breakdown based on individual products or services is not available.

The freenet Group engages in mass-market business that focuses primarily on private customers. Accordingly, the Group is not dependent on individual customers.

Segment report for the period from 1 January to 31 December 2019

In EUR '000s	Mobile Communications	TV and Media	Other/Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**2,640,780**	**244,452**	**47,312**	**0**	**2,932,544**
Inter-segment revenue	18,142	9,435	14,259	– 41,836	0
Total revenue	2,658,922	253,887	61,571	– 41,836	2,932,544
Cost of materials, third party	**– 1,948,932**	**– 72,698**	**– 14,704**	**0**	**– 2,036,334**
Inter-segment cost of materials	– 18,232	– 15,000	– 835	34,067	0
Total cost of materials	– 1,967,164	– 87,698	– 15,539	34,067	– 2,036,334
Segment gross profit	**691,758**	**166,189**	**46,032**	**– 7,769**	**896,210**
Other operating income	56,017	10,996	3,503	– 3,240	67,276
Other own work capitalised	13,193	4,899	2,166	0	20,258
Personnel expenses	– 136,658	– 60,616	– 39,176	0	– 236,450
Other operating expenses	– 257,052	– 47,931	– 26,525	11,009	– 320,499
Thereof loss allowances on financial assets and contract assets	– 38,418	– 695	– 369	0	– 39,482
Thereof without loss allowances on financial assets and contract assets	– 218,634	– 47,236	– 26,156	11,009	– 281,017
Overhead [1]	**– 324,500**	**– 92,652**	**– 60,032**	**7,769**	**– 469,415**
Thereof inter-segment allocation	– 7,328	– 987	546	7,769	
Segment EBITDA	**367,258**	**73,537**	**– 14,000**	**0**	**426,795**
Depreciation, amortisation and impairment					– 156,841
EBIT					**269,954**
Financial result					– 31,876
Income taxes					– 53,346
Consolidated profit					**184,732**
Consolidated profit attributable to shareholders of freenet AG					190,899
Consolidated profit attributable to non-controlling interests					– 6,167
Net cash investments	**23,826**	**13,306**	**3,470**		**40,602**

[1] The overhead costs as the difference between gross profit and EBITDA include the items other operating income, other own work capitalised, personnel expenses, other operating expenses and share of profit or loss of equity-accounted investments.

Segment report for the period from 1 January to 31 December 2018 (restated)

In EUR '000s	Mobile Communications	TV and Media	Other/Holding	Elimination of intersegment revenue and costs	Total
Third-party revenue	**2,571,507**	**274,595**	**51,364**	**0**	**2,897,466**
Inter-segment revenue	35,161	7,958	13,966	– 57,085	0
Total revenue	2,606,668	282,553	65,330	– 57,085	2,897,466
Cost of materials, third party	**– 1,868,578**	**– 110,135**	**– 15,026**	**0**	**– 1,993,739**
Inter-segment cost of materials	– 19,589	– 24,988	– 4,514	49,091	0
Total cost of materials	– 1,888,167	– 135,123	– 19,540	49,091	– 1,993,739
Segment gross profit	**718,501**	**147,430**	**45,790**	**– 7,994**	**903,727**
Other operating income	50,017	51,750	3,963	– 5,026	100,704
Other own work capitalised	9,113	6,711	2,282	0	18,106
Personnel expenses	– 122,848	– 63,599	– 33,253	0	– 219,700
Other operating expenses	– 288,782	– 55,996	– 29,895	13,020	– 361,653
Thereof loss allowances on financial assets and contract assets	– 45,745	– 502	– 419	0	– 46,666
Thereof without loss allowances on financial assets and contract assets	– 243,037	– 55,494	– 29,476	13,020	– 314,987
Overhead [1]	**– 352,500**	**– 61,134**	**– 56,903**	**7,994**	**– 462,543**
Thereof inter-segment allocation	– 6,607	657	– 2,044	7,994	
Segment EBITDA	**366,001**	**86,296**	**– 11,113**	**0**	**441,184**
Depreciation, amortisation and impairment					– 129,196
EBIT					**311,988**
Financial result					– 77,986
Income taxes					– 21,839
Consolidated profit					**212,163**
Consolidated profit attributable to shareholders of freenet AG					223,138
Consolidated profit attributable to non-controlling interests					– 10,975
Net cash investments	**20,272**	**17,625**	**5,446**		**43,343**

[1] The overhead costs as the difference between gross profit and EBITDA include the items other operating income, other own work capitalised, personnel expenses, other operating expenses and share of profit or loss of equity-accounted investments.

4 REVENUE

A breakdown of the revenue of 2,933 million euros (previous year: 2,898 million euros) by segments is set out under note 3, Segment reporting.

Of the Mobile Communications segment's external revenue totalling 2,641 million euros in the 2019 financial year (previous year: 2,572 million euros), 1,675 million euros (previous year: 1,697 million euros) was attributable to revenue from services (of which 1,541 million euros (previous year: 1,555 million euros) is accounted for by postpaid, and 134 million euros (previous year: 142 million euros) by no-frills and prepaid), 863 million euros (previous year: 794 million euros) to revenue from hardware and 103 million euros (previous year: 80 million euros) to other revenue.

The following disclosures are made in accordance with IFRS 15.116 b and IFRS 15.116 c:

In financial year 2019, revenue in the amount of 35,000 thousand euros (previous year: 10,464 thousand euros) was recognised which had previously been reported in net contract liabilities to customers from contracts with customers as at 1 January 2019. Revenue totalling 89 thousand euros (previous year: 46 thousand euros) from performance obligations settled or partly settled in prior periods was recognised in the 2019 financial year.

The total amount of the transaction price allocated to performance obligations not settled or only partly settled at the end of the reporting period (IFRS 15.120) amounts to 1,235.1 million euros (previous year: 1,220.5 million euros). The outstanding performance obligations relate to the following periods: 867.9 million euros to 2020, 343.1 million euros to 2021, 23.7 million euros to 2022 and 0.4 million euros to 2023. The Group did not apply the expedient in IFRS 15.121 to this disclosure.

5 OTHER OPERATING INCOME

Other operating income consists mainly of income from dunning charges and charges for reversing direct debits, income from the charging-on of expenses, market development funds (insofar as not linked to new customer activation), income from subleases (operating leases) and income from charging employees, fees for the use of company cars.

For more information, please refer to the statements in note 2.5, Leases.

6 OTHER OWN WORK CAPITALISED

The other own work capitalised mainly relates to the development of mobile communications software, due almost exclusively to strategic projects as well as the company's own assembly services in connection with the process of establishing radio infrastructure.

The capitalised costs comprise the directly attributable individual costs, which are largely consulting fees and personnel expenses, and the directly attributable overheads.

7 COST OF MATERIALS

The cost of materials breaks down as follows:

In EUR '000s	2019	2018
Costs of purchased goods	893,467	819,335
Costs of purchased services	1,142,867	1,174,404
Total	**2,036,334**	**1,993,739**

The cost of purchased goods largely consists of the cost prices for sold mobile communications devices, computers/IT products and bundles from prepaid operations.

The cost of purchased services mainly comprises mobile communications charges, commissions and premiums for sales partners.

The following disclosure is made in accordance with IFRS 15.127: In the 2019 financial year, contract acquisition costs of 313,054 thousand euros (previous year: 321,984 thousand euros) were amortised in the cost of materials. Under IFRS 15, contract acquisition costs are amortised using the straight-line method over the term of the underlying contract, in the vast majority of cases over a period of 24 months. Of the contract acquisition costs reported as at 31 December 2019, 306,506 thousand euros (previous year: 316,097 thousand euros) relates to dealer commission, 6,548 thousand euros (previous year: 5,874 thousand euros) to employee commission and 9 thousand euros (previous year: 13 thousand euros) to other items.

8 PERSONNEL EXPENSES

Personnel expenses are broken down as follows:

In EUR '000s	2019	2018
Wages and salaries	197,388	182,825
Social security and post-employment benefit costs	39,062	36,875
Total	**236,450**	**219,700**

An average of 4,200 persons were employed in the Group in the financial year 2019 (previous year: 4,131). At the end of the financial year, the Group employed 4,238 persons (previous year: 4,183). Of this figure, 35 (previous year: 38) were senior executives and 336 (previous year: 325) were apprentices or students of the vocational academy as of 31 December 2019.

The Group's employee incentive programmes triggered personnel expenses as per IFRS 2 4,359 thousand euros (previous year: reduction of expenses by 635 thousand euros).

With regard to an explanation of the employee incentive programmes, please refer to our comments to notes 2.13 and 25, Employee incentive programmes.

Personnel expenses also comprise an expense of 1,841 thousand euros for defined benefit plans (previous year: 2,208 thousand euros), see also note 29, Pension provisions and similar obligations.

Personnel expenses include a figure of 15,604 thousand euros as the employer's social insurance contribution as costs of defined contribution benefit plans (previous year: 14,413 thousand euros).

9 DEPRECIATION, AMORTISATION AND IMPAIRMENT

The following table sets out the composition of depreciation, amortisation and impairments:

In EUR '000s	2019	2018
Depreciation of lease assets	70,701	0
Amortisation of intangible assets	54,657	58,160
Depreciation of property, plant and equipment	31,483	71,036
Total	**156,841**	**129,196**

For information on the depreciation of right-of-use assets and the decrease in depreciation of property, plant and equipment, please refer to the statements in note 2.5, Leases.

10 OTHER OPERATING EXPENSES

Other operating expenses consist mainly of marketing costs (108,247 thousand euros in 2019 compared with 117,381 thousand euros in 2018), legal and consulting fees, administration expenses (e.g. rent and incidental costs of the shops and administration buildings), expenses for loss allowances and defaults on receivables, expenses for billing, outsourcing and postage.

In the 2019 financial year, other operating expenses included impairment losses on financial assets and contract assets of 39.5 million euros. Of this amount, 38.9 million euros is attributable to impairment losses recognised under IFRS 9, of which 38.9 million euros concern trade accounts receivable, other receivables and other assets, and other financial assets.

11 INTEREST AND SIMILAR INCOME

Interest and similar income consist of the following items:

In EUR '000s	2019	2018
Interest from the subsequent measurement of the put option from the acquisition of MOTION TM	6,257	0
Interest from lease receivables	2,035	0
Interest from banks, debt collection and similar income	1,155	92
Interest income from tax refunds	126	72
Total	**9,573**	**164**

For information on interest from the subsequent measurement of the put option from the acquisition of MOTION TM Vertriebs GmbH, Troisdorf (hereinafter referred to as "MOTION TM"), we refer to our comments in note 36.

For information on interest from lease receivables, we refer to our comments in note 2.5.2, freenet as lessor.

12 INTEREST AND SIMILAR EXPENSES AND OTHER NET FINANCE COSTS

Interest and similar expenses are comprised as follows:

In EUR '000s	2019	2018
Interest to banks and similar expenses	32,372	34,396
Interest from leases	17,167	0
Interest expense from the unwinding of discounts on liabilities	4,023	6,158
Interest expense from pension obligations	1,725	1,708
Interest expense from additional tax payments and similar expenses	83	111
Interest from finance leases	0	11,616
Other	1,329	2,053
Total	**56,699**	**56,042**

The interest expense for 2019 relating to the unwinding of the discount on liabilities in the amount of 4,023 thousand euros (previous year: 6,158 thousand euros) is mainly attributable to the unwinding of the discount on current income tax liabilities, other financial liabilities and provisions.

This item includes interest relating to the effective interest method (IFRS 9 measurement category: amortised cost) in the interest to banks and similar expenses of 4,018 thousand euros (previous year: 6,238 thousand euros), in the interest from finance leasing of 0 thousand euros (previous year: 11,616 thousand euros) and in the interest expense relating to the unwinding of the discount on liabilities in the amount of 4,023 thousand euros (previous year: 6,158 thousand euros).

For information on interest from leases, we refer to our comments in note 2.5, Leases.

The other financial result amounts to 0.6 million euros (previous year: – 47.2 million euros). This change was primarily due to the one-off effect of the initial recognition of shares in CECONOMY AG ("CECONOMY") in the previous year (– 47.1 million euros).

13 INCOME TAXES

Income taxes comprise paid and outstanding income taxes, plus deferred taxes.

In EUR '000s	2019	2018
Current tax expense for the financial year	– 25,881	– 29,593
Tax income from previous years	503	48
Deferred tax income (previous year: tax expense) due to write-up (previous year: write-down) on deferred tax assets	– 8,684	4,549
Deferred tax income (previous year: tax expense) relating to temporary differences	– 18,862	3,157
Deferred tax income from tax rate changes		
relating to temporary differences	– 926	0
relating to tax loss carryforwards	504	0
Total	**– 53,346**	**– 21,839**

For further details concerning deferred taxes, please refer to note 18, Deferred tax assets and deferred tax liabilities.

Applying the average tax rate of the consolidated companies to consolidated profit before income taxes would result in anticipated tax expense of 72.1 million euros (previous year: 71.1 million euros). The difference between this amount and the current tax expense of 53.3 million euros (previous year: 21.8 million euros) is shown in the following reconciliation:

In EUR '000s/as indicated	2019	2018
Earnings before taxes	**238,078**	**234,002**
Expected tax expense applying the tax rate of 30.40% (previous year: 30.40%)	– 72,138	– 71,137
Change in deferred tax assets on loss carryforwards and unrecognised deferred tax assets on loss carryforwards	23,508	42,358
Tax effect on non-deductible expenses due to trade tax additions	– 2,620	– 8,019
Tax effect of other non-deductible expenses	– 10,558	– 16,035
Tax effect of tax-free income	12,153	5,931
Effects of tax rate changes	– 422	0
Tax income from previous years	503	48
Other effects	– 3,772	25,015
Current tax expense	**– 53,346**	**– 21,839**
Effective tax rate in per cent	22.41	9.33

The other effects in the previous year in the amount of 25,015 thousand euros related to a non-recurring expense in the tax accounts for freenet AG's consolidated tax group for income tax purposes as at 1 January 2018 totalling 82,287 thousand euros. This non-recurring expense related to the derecognition for tax purposes of trade accounts receivable in connection with a new treatment of net assets based on an analysis of a situation against the backdrop of the new IFRS 15. For 2019, the other effects include restatements for previous years amounting to 3.5 million euros.

For the Group companies, a corporation tax rate of 15.0 per cent (previous year: 15.0 per cent) was applied in financial year 2019 for calculating the current and deferred income taxes. A solidarity surcharge of 5.5 per cent (previous year: 5.5 per cent) in relation to the corporation tax as well as an average trade tax assessment rate of 413.74 per cent (previous year: 414.94 per cent) were also applied. The deferred taxes in financial year 2019 were calculated using an average tax rate of 30.30 per cent (previous year: 30.40 per cent).

14 EARNINGS PER SHARE

14.1 BASIC EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to the shareholders by the weighted average number of shares outstanding during the financial year. In the future, basic earnings per share may decrease as a result of the possible utilisation of conditional capital. For information purposes, please refer to our comments under note 24.7, Conditional capital.

	2019	2018
Consolidated profit attributable to shareholders of freenet AG In EUR '000s	190,899	223,138
Weighted average number of shares outstanding	128,011,016	128,011,016
Earnings per share in EUR (basic)	**1.49**	**1.74**

14.2 DILUTED EARNINGS PER SHARE

Diluted earnings per share are calculated by dividing the profit attributable to the shareholders by the weighted average number of shares outstanding increased by potentially dilutive shares.

As at 31 December 2019, there are neither actual nor potential dilution effects.

	2019	2018
Consolidated profit attributable to shareholders of freenet AG in EUR '000s	190,899	223,138
Weighted average number of shares outstanding	128,011,016	128,011,016
Weighted average number of shares outstanding plus number of potentially dilutive shares	128,011,016	128,011,016
Earnings per share in EUR (diluted)	**1.49**	**1.74**

15 INTANGIBLE ASSETS, LEASE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND GOODWILL

Movements in intangible assets and property, plant and equipment are shown under note 39.

The most significant carrying amount in intangible assets relates to trademarks arising from the purchase price allocation on the occasion of the acquisition of the debitel Group in financial year 2008.

The following table sets out the carrying amounts of these intangible assets from purchase price allocations:

In EUR '000s	31.12.2019	31.12.2018
Trademarks	300,754	301,427
Customer relationships	87,828	87,046
Right-of-use assets	43,536	50,546
Software	1,945	76
Total	**434,063**	**439,095**

In addition to the intangible assets resulting from the various purchase price allocations, further intangible assets of 67.8 million euros are shown as at 31 December 2019 (31 December 2018: 86.3 million euros) including distribution rights of 19.3 million euros (previous year: 44.5 million euros).

The exclusive distribution right with Media Saturn Deutschland GmbH resulted in a carrying amount of 18.8 million euros as at 31 December 2019 (previous year: 43.8 million euros). No impaired intangible assets existed as at 31 December 2019.

Lease assets amounted to 452.0 million euros as at 31 December 2019 (31 December 2018: 0 euros). In this context, we refer to our comments in note 2.5, Leases.

The allocation of goodwill to CGUs is shown in the table below:

In EUR '000s	31.12.2019	31.12.2018
Mobile Communications	1,122,814	1,119,396
Online	29,887	29,887
TV	226,621	226,621
Other	4,152	4,152
Total	**1,383,474**	**1,380,056**

The purchase price allocation on the occasion of the acquisition of the Media Broadcast Group resulted in goodwill of 225,934 thousand euros, which is shown under the “TV” CGU.

Since 2016, the “TV” CGU has been allocated to the “TV and Media” segment, and the “Other” CGU has been allocated to the “Other/Holding” segment.

16 IMPAIRMENT TESTING OF NON-MONETARY ASSETS IN ACCORDANCE WITH IAS 36

Goodwill of 1,122,814 thousand euros (previous year: 1,119,396 thousand euros) was allocated to the “Mobile Communications” CGU, which belongs to the Mobile Communications segment, and a trademark in the amount of 293,204 thousand euros (previous year: 293,204 thousand euros) as an intangible asset with an indefinite useful life. As of 31 December 2019, goodwill of 226,621 thousand euros (previous year: 226,621 thousand euros) was allocated to the “TV” CGU which is identical to the “TV” segment, while goodwill of 29,887 thousand euros (previous year: 29,887 thousand euros) has been allocated to the “Online” CGU. The “Online” CGU is part of the “Other/Holding” segment.

The fair value less costs to sell has been used as the recoverable amount of the “Mobile Communications”, “TV” and “Online” CGUs. The fair values were determined on the basis of planning approved by management covering the period up to and including 2023. The detailed planning phases were extrapolated in the terminal value. These are equivalent to level 3 of the fair value hierarchy in accordance with IFRS 13.

The post-tax WACC used in measuring fair value is derived on the basis of market data and the specific risk structure of the CGUs. With regard to the capitalisation rates in the subsequent phase (from 2023), discounts have been assumed based on growth assumptions; these are also the growth rates that were used to extrapolate the cash flow forecasts.

Planning for the “Mobile Communications”, “TV” and “Online” CGUs is based on detailed assumptions derived from past experience and future expectations in relation to the main earnings and value drivers.

The following table shows the goodwill allocated to the CGUs, the discount rates (WACC), the growth assumptions and the basic assumptions for the corporate planning:

CGU	Allocated goodwill in EUR millions	WACC in %	Growth rate in %	Key earnings/value drivers	Basic assumptions for corporate planning
Mobile Communications	1,124.8	4.58	0.50	– Gross profit can be broken down into two earnings flows: the contribution made to earnings by new customers, and customer retention. These are opposed by costs for purchased services (particularly mobile network operators). – The costs of acquiring and retaining customers dominate the contribution to earnings made by new customers and customer loyalty. On the other side are costs for procuring hardware and for dealer commissions to be paid to sales partners as a result of the acquisition or loyalty programmes.	– Stable customer acquisition and customer retention costs – Moderate increase in customer base in the postpaid business – Stable postpaid ARPU – Stable development of revenues and EBITDA – Increasing sales and earnings contribution of digital lifestyle products
TV	226.6	5.22	1.00	– Revenue and gross profits generated by the individual end products, differentiated in accordance with the respective sales markets.	– Increasing revenue, gross profit and EBITDA contributions
Online	29.9	6.05	0.25	– Revenue and gross profits generated by the individual end products, differentiated in accordance with the respective sales markets.	– Declining revenue and gross profit – Steady EBITDA contributions

The impairment test carried out in 2019 in relation to the “Mobile Communications”, “TV” and “Online” CGUs confirmed that no impairment has to be recognised in relation to the respective goodwill allocated or to the trademark of the “Mobile Communications” CGU with an indefinite useful life.

The consolidated financial statements as at 31 December 2019 include other goodwill for various CGUs in the amount of 4,152 thousand euros (previous year: 4,152 thousand euros), all of which is allocated to the “Other/Holding” segment.

No impairment of non-monetary assets was recognised in the Group in financial year 2019 (previous year: 0).

In accordance with IAS 36 in conjunction with IAS 28.40 et seq., a separate impairment test had to be carried out in relation to the total carrying amount of the shares in the associated company Sunrise as of 31 December 2019 in the amount of 780.5 million euros (previous year: 810.4 million euros). The recoverability was estimated on the basis of information available in the public domain. The main sources in this respect were analyst estimates and also the application of EBITDA multiples which are usual in the telecommunications sector. On the basis of this information, it was possible to confirm the recoverability of the equity interest in the associated company Sunrise. There was no need for recognising an impairment loss.

17 EQUITY-ACCOUNTED INVESTMENTS

In EUR '000s	Note	31.12.2019	31.12.2018
Interests in associates	17.1	783,884	810,399
Interests in joint ventures	17.2	1,753	1,409
Total		**785,637**	**811,808**

17.1 ASSOCIATES

Sunrise is included in the consolidated financial statements of freenet AG as an associate. By way of two seats on the Administrative Board of Sunrise and with 24.56 per cent of voting rights, freenet AG is able to exert a significant influence.

Sunrise is the largest non-government controlled telecommunications provider in Switzerland and accounts for more than 3 million customers in the fields of mobile communications, landline, Internet and digital TV.

The most recent financial information published by Sunrise relates to the consolidated financial statements as of 31 December 2019.

Summarised Information as of 31 December 2019

BALANCE SHEET[1] In EUR '000s	31.12.2019	31.12.2018
Non-current assets	3,111,071	2,682,475
Thereof intangible assets	1,953,974	1,855,191
Current assets	632,863	801,138
Thereof cash	184,903	373,944
Total assets	**3,743,934**	**3,483,613**
Non-current liabilities	1,932,064	1,663,404
Thereof long-term borrowings	1,453,968	1,393,244
Current liabilities	577,294	504,331
Thereof trade accounts payable and other liabilities	487,767	445,103
Total liabilities	**2,509,358**	**2,167,735**

[1] The closing rate as of 31.12.2019 was 0.9217 EUR/CHF.

INCOME STATEMENT In EUR '000s	1.1.2019 – 31.12.2019	1.1.2018 – 31.12.2018
Revenue	1,697,054	1,670,241
Gross profit	1,126,357	1,074,318
EBITDA	528,966	533,574
Depreciation, amortisation and impairment	– 427,075	– 385,672
Interest and similar expenses	– 44,622	– 47,230
Income taxes	– 11,426	– 25,062
Consolidated profit after tax	48,560	454,717

OTHER COMPREHENSIVE INCOME[1] In EUR '000s	1.1.2019 – 31.12.2019	1.1.2018 – 31.12.2018
Consolidated profit after tax	**48,560**	**92,644**
Recognition of actuarial gains and losses arising from the accounting for pension plans acc. to IAS 19 (2011)	– 5,272	4,135
Income taxes	130	– 840
Other comprehensive income/not to be reclassified to the income statement in future periods	**– 5,142**	**3,295**
Other comprehensive income	**43,418**	**95,939**

[1] The average exchange rate for financial year 2019 was 0,8995 EUR/CHF.

The reconciliation to the carrying amount is as follows:

RECONCILIATION TO THE CARRYING AMOUNT In EUR millions	2019	2018
Carrying amount as of 1 January, as reported	**810.4**	**809.7**
Effects of the transition to IFRS 15/IFRS 9	0	7.1
Carrying amount as of 1 January, restated	**810.4**	**816.8**
Current profit share	34.3	44.3
Subsequent accounting from purchase price allocation	– 20.0	– 19.2
Other comprehensive income	0.7	5.4
Dividend paid to freenet	– 41.5	– 36.9
Carrying amount as of 31 December	**783.9**	**810.4**

RECONCILIATION OF THE NET ASSETS OF SUNRISE TO THE CARRYING AMOUNT In EUR millions	2019	2018
Net Sunrise assets as of 31 December	**1,234.5**	**1,315.9**
Net Sunrise assets attributable to freenet as of 31 December	303.2	323.2
Elimination of PPA effects at Sunrise	– 299.1	– 321.4
Fair value adjustments on net Sunrise assets from PPA at freenet	790.1	810.1
Other effects of reconciliation[1]	– 10.3	– 1.5
Carrying amount as of 31 December	**783.9**	**810.4**

[1] The other reconciliation effects for 2019 result mainly from translating CHF to euros.

For the period 1 January 2019 to 31 December 2019, the income statement shows a profit share of 14,286 thousand euros (previous year: 25,027 thousand euros) for equity-accounted investments attributable to the interest in Sunrise; of this figure, 34,252 thousand euros relates to shares of the consolidated profit of Sunrise after tax (previous year: 44,260 thousand euros) and – 9,966 thousand euros relates to the subsequent write-down recognised in connection with the shadow purchase price allocation (previous year: – 19,233 thousand euros).

With regard to the shares in the consolidated profit after tax of Sunrise, it has to be borne in mind that freenet initially adjusts consolidated profit after tax disclosed by Sunrise by the amount included in this consolidated profit as write-downs as well as deferred tax effects in relation to purchase price allocation on the part of Sunrise. This ensures that these write-downs and these deferred tax effects are not recognised twice, as freenet shows these effects in the "Profit or loss of equity-accounted investments, thereof from subsequent accounting from purchase price allocation".

In relation to Sunrise, other comprehensive income of 1,924 thousand euros (previous year: 4,604 thousand euros) resulting from currency translation differences with regard to subsequent accounting as well as other comprehensive income of – 29 thousand euros resulting from recognised income taxes and – 1,263 thousand euros in actuarial gains arising from the accounting for pension plans (previous year: 809 thousand euros) were shown as elements of other comprehensive income in the consolidated statement of comprehensive income.

In financial year 2019, freenet AG received a dividend payment of 41,462 thousand euros (previous year: 36,912 thousand euros) as a result of the dividend payment of 4.20 CHF per share adopted by the Annual General Meeting of Sunrise on 10 April 2019. This inflow boosted the cash flows from operating activities.

As of 31 December 2019, the carrying amount of the Group's equity interest in Sunrise amounted to 783,884 thousand euros (31 December 2018: 810,399 thousand euros). At the balance sheet date the share price of Sunrise amounted to 70.01 euros (31.12.2018: 76.04 euros – source: Bloomberg). As of 31 December 2019, the freenet Group held 11,051,578 shares, as previously.

17.2 JOINT VENTURES

The consolidated financial statements for the period ending 31 December 2019 include Jestoro GmbH, Hamburg, as an insignificant joint venture with a carrying amount of 1.8 million euros (31 December 2018: 1.4 million euros). In financial year 2019, the net profit/loss of Jestoro GmbH amounted to 0.5 million euros (previous year: 0.5 million euros).

18 DEFERRED INCOME TAX ASSETS AND DEFERRED TAX LIABILITIES

The deferred tax assets and deferred tax liabilities, taking account of the temporary differences in accordance with the liability method, were taxed at an overall rate of 30.30 per cent (previous year: 30.40 per cent).

The following amounts are shown in the consolidated balance sheet:

In EUR '000s	31.12.2019	31.12.2018
Deferred income tax assets	130,226	158,094
Total	**130,226**	**158,094**

The overhang of deferred tax assets for the corporation tax and trade tax group of freenet AG which are recognised (130.3 million euros; previous year: 158.1 million euros) is classified as current (35.1 million euros; previous year: 43.7 million euros) and non-current (95.2 million euros; previous year: 114.4 million euros) as a result of the anticipated use of tax loss carryforwards.

Changes in the deferred income tax assets and deferred income tax liabilities in the financial year 2019 are shown in the following table:

In EUR '000s	1.1.2019	Transition to IFRS 16	Effects from initial consolidation/deconsolidation	Set off in other comprehensive income	Expenses and income from income taxes	31.12.2019
Property, plant and equipment	1,602	0	0	0	1,137	2,739
Intangible assets	– 175,937	0	– 2,593	0	6,786	– 171,744
Lease assets	0	– 157,288	524	0	17,118	– 139,646
Other financial assets	– 7,543	– 29,919	66	– 1,128	3,449	– 35,076
Contract acquisition costs	– 92,488	0	0	0	2,464	– 90,024
Loss carryforwards	292,717	0	0	0	– 9,610	283,107
Lease liabilities	0	191,724	– 593	0	– 24,035	167,096
Pension provisions	9,537	0	0	3,497	– 439	12,595
Other provisions	7,767	– 490	– 1	1	– 2,753	4,524
Other financial liabilities	7,949	– 3,689	0	0	24,607	28,867
Trade accounts payable, other liabilities	170,616	0	0	0	– 36,321	134,295
Borrowings	1,131	0	0	0	261	1,392
Trade accounts receivable, other assets	– 57,257	0	0	– 11	– 10,633	– 67,901
Total	**158,094**	**338**	**– 2,597**	**2,359**	**– 27,968**	**130,226**

The expenses and income from income tax amounting to a net expense of 27,968 thousand euros (previous year: 7,706 thousand euros) are shown in the consolidated income statement as deferred income taxes under "Taxes on income". They basically correspond to the sum of the deferred income taxes attributable to continuing and discontinued operations. As in the previous year, income tax expenses and income in financial year 2019 were attributable solely to continuing operations.

The deferred tax assets and deferred tax liabilities developed as follows in financial year 2018:

In EUR '000s	1.1.2018	Transition to IFRS 15, IFRS 9	Set off in other comprehensive income	Expenses and income from income taxes	31.12.2018
Property, plant and equipment	2,038	0	0	– 436	1,602
Intangible assets	– 171,474	0	0	– 4,463	– 175,937
Financial assets	958	0	0	– 958	0
Other financial assets	0	– 5,449	1,935	– 4,029	– 7,543
Contract acquisition costs	0	– 88,035	0	– 4,453	– 92,488
Loss carryforwards	288,168	0	0	4,549	292,717
Pension provisions	9,625	0	233	– 321	9,537
Other provisions	4,931	– 1,581	0	4,417	7,767
Other financial liabilities	0	7,488	0	461	7,949
Trade accounts payable, other liabilities	– 1	158,169	0	12,448	170,616
Borrowings	849	0	0	282	1,131
Trade accounts receivable, other assets	18,414	– 75,798	– 82	209	– 57,257
Total	**153,508**	**– 5,206**	**2,086**	**7,706**	**158,094**

The summarised net change in deferred taxes is shown below:

In EUR '000s	2019	2018
As of 1.1.	**158,094**	**153,508**
Transition to IFRS 16	338	0
Effects from initial consolidation and deconsolidation	– 2,597	0
Transition to IFRS 15, IFRS 9	0	– 5,206
Set off in other comprehensive income	2,359	2,086
Tax expense (previous year: tax income)	– 27,968	7,706
As of 31.12.	**130,226**	**158,094**

The existing tax loss carryforwards that can be carried forward without any restrictions exceed the sum of the forecast cumulative profits for the next four financial years. Accordingly, a deferred tax asset was only recognised in the consolidated balance sheet to the extent that it is regarded as probable that this asset will indeed be realised. The expected profits are based on the company's forecast for earnings before taxes applicable as at the balance sheet date. As at 31 December 2019, deferred tax assets amounting to 283,107 thousand euros had been recognised in relation to loss carryforwards (previous year: 292,717 thousand euros). Of this figure, 144,294 thousand euros (previous year: 142,924 thousand euros) is attributable to corporation tax loss carryforwards and 138,813 thousand euros (previous year: 149,793 thousand euros) is attributable to trade tax loss carryforwards. Of the figure shown for other loss carryforwards, for which no deferred tax assets had been recognised in the consolidated balance sheet, 0.8 billion euros relate to corporation tax and 0.1 billion euros relate to trade tax (previous year: 1.2 billion euros corporation tax and 0.4 billion euros trade tax). As was the case on the previous year's balance sheet date, there were no unrecognised interest carryforwards as per section 4h (1) sentence 2 of the German Income Tax Act (Einkommensteuergesetz–EStG).

As at 31 December 2019, there are temporary outside basis differences (net equity in accordance with IFRSs is higher than the corresponding carrying amounts of investments shown for tax purposes) of approximately 54.7 million euros (previous year: approximately 48.3 million euros). No deferred taxes have been recognised in connection with these differences because they are not expected to reverse in the fiscal planning period.

19 CONTRACT ACQUISITION COSTS

Capitalised contract acquisition costs amounted to 297,240 thousand euros as of 31 December 2019 (31 December 2018: 304,238 thousand euros). They relate predominantly to dealer commissions and, to a lesser extent, to employee commissions.

In financial year 2019, costs recognised as assets amounted to 306,315 thousand euros (previous year: 336,622 thousand euros) and amortisation to 313,054 thousand euros (previous year: 321,973 thousand euros). As was the case in the previous year, no impairment losses on contract acquisition costs were recognised in the financial year.

In postpaid business, the amortisation period is almost exclusively 24 months. In prepaid business, assets are amortised over the imputed initial term. Across the entire Group and all business segments, 94 per cent of the amortisation amount in 2019 was attributable to contract acquisition costs with an amortisation period of 24 months.

20 INVENTORIES

The inventories are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Mobile phones/Accessories	46,888	66,858
Computers/IT products	16,592	19,820
SIM cards	6,727	7,492
Bundles and vouchers	51	69
Other	5,561	11,726
Total	**75,819**	**105,965**

Impairment of 3,726 thousand euros (previous year: 4,915 thousand euros) has been recognised in relation to the year-end inventories.

21 RECEIVABLES, OTHER ASSETS AND OTHER FINANCIAL ASSETS

Receivables, other assets and other financial assets are comprised as follows:

		31.12.2019	
In EUR '000s	Total	Non-current	Current
Trade accounts receivable	294,431	68,678	225,753
Other non-derivative financial assets	23,402	8,724	14,678
	317,833	**77,402**	**240,431**
Lease receivables	82,178	68,254	13,924
Other financial assets	28,972	11,387	17,585
Other equity instruments	180,115	180,115	0
Financial assets	**609,098**	**337,158**	**271,940**
Other assets	319,190	122,736	196,454
Prepayments made	5,465	185	5,280
Non-financial assets	**324,655**	**122,921**	**201,734**
Total receivables, other assets and other financial assets	**933,753**	**460,079**	**473,674**

	31.12.2018		
In EUR '000s	Total	Non-current	Current
Trade accounts receivable	306,394	52,480	253,914
Other non-derivative financial assets	22,053	8,320	13,733
	328,447	**60,800**	**267,647**
Other financial assets	33,461	12,290	21,171
Other equity instruments	105,608	105,608	0
Financial assets	**467,516**	**178,698**	**288,818**
Other assets	347,660	127,675	219,985
Prepayments made	6,758	348	6,410
Non-financial assets	**354,418**	**128,023**	**226,395**
Total receivables, other assets and other financial assets	**821,934**	**306,721**	**515,213**

These other equity instruments are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Equity investment in CECONOMY	178,767	104,427
Miscellaneous other equity investments	806	634
Other	542	547
Total	**180,115**	**105,608**

The freenet Group acquired 9.1 per cent of the ordinary shares (32,633,555) of CECONOMY with effect from 12 July 2018 for a price of 277.4 million euros. As of 31 December 2019, the equity interest in CECONOMY is reported under other financial assets at a carrying amount of 178.8 million euros. Subsequent accounting is at fair value through other comprehensive income. The Group reports the fair value as the market price on the reporting date (closing price on the Frankfurt Stock Exchange).

Trade accounts receivable are due from third parties and consist mainly of receivables arising from charges, equipment sales, and landline and Internet services.

The sum total of trade accounts receivable and other non-derivative financial assets, less loss allowances, amounted to 317,833 thousand euros as at 31 December 2019 (previous year: 328,447 thousand euros). For more information, please refer to the statements in note 33, Information on financial instruments. In the freenet Group, trade accounts receivable are the most significant item in this category. These are due in almost equal proportions from end customers, corporate customers, dealers and sales partners. Other assets and prepayments made of 324,655 thousand euros (previous year: 354,418 thousand euros) consist of non-financial assets as at 31 December 2019.

Invoices in the Mobile Communications segment are issued by the Group itself. In the segment Other/Holding some invoices are issued by the Group itself; for narrowband services, the collection services of Deutsche Telekom AG (DTAG) are utilised.

When invoices are issued to end customers by the Group itself, they are mostly due immediately upon receipt. The invoicing carried out by DTAG has a payment term of 30 days.

The maximum default risk of the trade accounts receivable as at the balance sheet date amounts to 282.5 million euros (previous year: 259.5 million euros) due to existing commercial credit insurances. The maximum default risk in connection with financial assets and other equity instruments corresponds to their carrying amounts.

The loss allowances recognised as at the reporting date of 31 December 2019 were attributable to the categories of receivables and assets presented below. On this basis, the loss allowances for trade accounts receivable, other financial assets and other receivables and other assets as at 31 December 2019 were determined as follows:

31 December 2019
Loss allowances recognised on receivables, other assets and other financial assets pursuant to IFRS 9

In EUR '000s	Balance sheet item	Gross carrying amount	Loss allowance	Net carrying amount	Expected loss rate (mathematical) in %
Receivables from end customers – not past due	Trade accounts receivable	157,606	– 4,945	152,662	3.1
Receivables from end customers – past due for <90 days	Trade accounts receivable	20,702	– 5,480	15,222	26.5
Receivables from end customers – past due for 90 to 180 days	Trade accounts receivable	14,798	– 7,542	7,256	51.0
Receivables from end customers – past due for >180 days	Trade accounts receivable	137,943	– 123,902	14,041	89.8
Receivables from business partners	Trade accounts receivable	108,346	– 3,096	105,250	2.9
Other non-derivative financial assets (Stage 1)	Other financial assets	23,943	– 541	23,402	
Other financial assets					
thereof lease receivables[1]	Other financial assets	82,178		82,178	
Thereof consideration payable under IFRS 15 (Mobile Communications/mobile phone upgrade option) (Stage 1)	Other financial assets	29,565	– 593	28,972	
Other assets					
Thereof contract assets from contracts with customers (Mobile Communications)	Other receivables and other assets	159,943	– 6,311	153,632	3.9
Thereof consideration payable under IFRS 15 (Mobile Communications/tariff) (Level 1)	Other receivables and other assets	135,178	– 6,164	129,014	4.6
Thereof financial assets from contracts with customers (TV)	Other receivables and other assets	35,918	0	35,918	

[1] The impairment loss identified for the lease receivables was insignificant in financial year 2019 and was not recognised.

31 December 2018

Loss allowances recognised on receivables, other assets and other financial assets pursuant to IFRS 9

In EUR ’000s	Balance sheet item	Gross carrying amount	Loss allowance	Net carrying amount	Expected loss rate (mathematical) in %
Receivables from end customers – not past due	Trade accounts receivable	120,076	– 4,028	116,049	3.4
Receivables from end customers – past due for <90 days	Trade accounts receivable	20,941	– 6,630	14,311	31.7
Receivables from end customers – past due for 90 to 180 days	Trade accounts receivable	16,144	– 8,215	7,929	50.9
Receivables from end customers – past due for >180 days	Trade accounts receivable	149,620	– 133,621	15,999	89.3
Receivables from business partners	Trade accounts receivable	155,699	– 3,593	152,106	2.3
Other non-derivative financial assets (Stage 1)	Other financial assets	22,773	– 720	22,053	
Other financial assets					
Thereof consideration payable under IFRS 15 (Mobile Communications/mobile phone upgrade option) (Stage 1)	Other financial assets	35,061	– 1,600	33,461	
Other assets					
Thereof contract assets from contracts with customers (Mobile Communications)	Other receivables and other assets	151,741	– 5,553	146,188	3.7
Thereof consideration payable under IFRS 15 (Mobile Communications/tariff) (Level 1)	Other receivables and other assets	137,655	– 4,908	132,747	3.6
Thereof financial assets from contracts with customers (TV)	Other receivables and other assets	40,603	0	40,603	

We provide the following information on the development loss allowances in the 2019 financial year:

In EUR ’000s	Trade accounts receivable (simplified model)	Other financial assets (Stage 1)	Other receivables and other assets (contract assets)	Total
Loss allowance as at 31.12.2018 – calculated under IFRS 9 (of which specific loss allowances was 3,281, see following table)	**156,087**	**2,320**	**10,461**	**168,868**
Net change in loss allowances in 2019	– 11,122	– 1,186	2,014	– 10,294
Loss allowance as at 31.12.2018 – calculated under IFRS 9 (of which specific loss allowances was 2,971, see following table)	**144,965**	**1,134**	**12,475**	**158,574**

We provide the following information on the development loss allowances in the 2018 financial year:

In EUR '000s	Trade accounts receivable (simplified model)	Other financial assets (Stage 1)	Other receivables and other assets (contract assets)	Total
Loss allowance as at 31.12.2017 – calculated under IAS 39	**134,071**	**615**	**0**	**134,686**
Amounts restated retrospectively through the opening balance of the consolidated balance sheet result	26,417	2,055	10,063	38,535
Opening loss allowance on 1 January 2018 – calculated under IFRS 9	**160,488**	**2,670**	**10,063**	**173,221**
Net change in loss allowances in 2018	– 4,401	– 350	398	– 4,353
Loss allowance as at 31.12.2018 – calculated under IFRS 9 (of which specific loss allowances was 3,281, see following table)	**156,087**	**2,320**	**10,461**	**168,868**

The breakdown of **non-current other financial assets** is as follows:

In EUR '000s	31.12.2019	31.12.2018
Interest in CECONOMY	178,767	104,427
Lease receivables	68,254	0
Consideration payable under IFRS 15 (Mobile Communications/mobile phone upgrade option)	11,387	12,290
Other	10,072	9,501
Total	**268,480**	**126,218**

For more information on lease receivables, we refer to our comments in note 2.5, Leases.

Current other financial assets are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Consideration payable under IFRS 15 (Mobile Communications/mobile phone upgrade option)	17,585	21,171
Lease receivables	13,924	0
Other	14,678	13,733
Total	**46,187**	**34,904**

For more information on lease receivables, we refer to our comments in note 2.5, Leases.

The breakdown of **non-current other receivables and other assets** is as follows:

In EUR '000s	31.12.2019	31.12.2018
Contract assets from contracts with customers (Mobile Communications)	53,520	51,040
Other assets from contracts with customers (TV)	36,127	34,871
Consideration payable under IFRS 15 (Mobile Communications/tariff)	32,462	37,014
Other	812	5,098
Total	**122,921**	**128,023**

Current other receivables and other assets are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Contract assets from contracts with customers (Mobile Communications)	100,112	95,148
Consideration payable under IFRS 15 (Mobile Communications/tariff)	92,887	97,876
Other assets from contracts with customers (TV)	3,456	3,589
Other	5,279	29,782
Total	**201,734**	**226,395**

Non-current trade accounts receivables are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Receivables from end customers from mobile phone upgrade option (Mobile Communications)	68,535	52,328
Other	143	152
Total	**68,678**	**52,480**

Current trade accounts receivables are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Receivables from network operators, dealers, distributors, hardware manufacturers (Mobile Communications)	77,670	121,009
Receivables from end customers (Mobile Communications), without mobile phone upgrade option	64,929	68,538
Receivables from end customers from mobile phone upgrade option (Mobile Communications)	51,364	30,054
Receivables from end customers (TV and Media, and Other/Holding)	4,351	3,368
Other	27,439	30,945
Total	**225,753**	**253,914**

22 LIQUID ASSETS

Liquid assets are comprised as follows:

In EUR '000s	31.12.2019	31.12.2018
Cash at bank, cheques and cash in hand	133,692	126,332
Total	**133,692**	**126,332**

23 CURRENT INCOME TAX ASSETS

The current income tax assets mainly relate to receivables due from former shareholders in connection with tax clauses from acquisitions.

24 EQUITY

In regard to the following notes we also refer to the statement of changes in equity.

24.1 SHARE CAPITAL

The company's issued share capital is unchanged compared with the previous year and amounts to 128,061 thousand euros. The share capital consists of 128,061,016 registered no-par-value shares, each with a theoretical nominal value of 1.00 euro. The entire share capital is fully paid up. All shares have the same rights. As in the previous year 50,000 of these shares are held by mobilcom-debitel Logistik GmbH, Schleswig, which in turn is wholly owned by the company, unchanged compared with the previous year. As was the case in the previous year, the treasury shares were deducted from the capital reserve at their acquisition cost of 50 thousand euros.

Pursuant to section 71 (1) no. 8 of the German Stock Corporation Act (Aktiengesetz – AktG), the Executive Board has been authorised by the Annual General Meeting on 12 May 2016 to purchase own shares amounting to a total of 10 per cent of the share capital existing at the time of the resolution on 12 May 2016 with the approval of the Supervisory Board or – if this amount is lower – the share capital existing at the time this authorisation is exercised accordingly, for any permissible purpose within the legal restrictions. The authorisation is valid until 11 May 2021. In financial year 2019, the Executive Board made no use of this authorisation.

In addition to the authorisation pursuant to section 71 (1) no. 8 AktG, the Executive Board may additionally use equity derivatives to acquire own shares. This does not result in an increase in the maximum volume of shares which is permitted to be purchased; it only provides another alternative to acquire own shares.

24.2 CAPITAL RESERVE

As was the case in the previous year, major components of the capital reserve reported as at 31 December 2019 originate from the capital increase in 2008 due to the acquisition of the debitel Group (349.8 million euros) as well as the merger between mobilcom AG and freenet.de AG to form freenet AG which became effective in 2007 and the related acquisition of the minority interest in the former freenet.de AG (134.7 million euros).

24.3 CUMULATIVE OTHER COMPREHENSIVE INCOME

The cumulative other comprehensive income essentially consists of actuarial gains and losses relating to the recognition of pension schemes in accordance with IAS 19 as well as currency translation differences relating to the subsequent accounting for equity-accounted investments. For information on income taxes netted in other comprehensive income, we refer to note 18.

24.4 CONSOLIDATED NET RETAINED PROFITS

The consolidated net retained profits for financial year 2019 comprise the cumulative consolidated profit attributable to the freenet AG shareholders, less the dividend payments. In the 2019 financial year, a dividend of 1.65 euros per no-par-value share, making a total of 211.2 million euros, was paid out for the financial year 2018.

24.5 NON-CONTROLLING INTERESTS

Of the non-controlling interests in equity an amount of 9.3 million euros (31 December 2018: 16.1 million euros) was attributable to the 41.37 per cent (31 December 2018: 49.99 per cent) interest held by non-controlling shareholders in EXARING. We provide the following information regarding the assets and liabilities of EXARING as of 31 December 2019, before the consolidation of liabilities, income and expenses and also inclusive of the effects of the subsequent accounting for the purchase price allocation:

EXARING AG

In EUR '000s	31.12.2019	31.12.2018
Non-current assets	72,398	66,200
Current assets	8,546	1,964
Total assets	**80,944**	**68,164**
Non-current liabilities	18,490	15,366
Current liabilities	10,532	10,775
Total liabilities	**29,022**	**26,141**
Net assets	**51,923**	**42,023**
Thereof: non-controlling interests in equity	**9,255**	**16,113**

The net profit/loss of EXARING amounted to – 10,098 thousand euros in financial year 2019 (previous year: – 17,917 thousand euros).

24.6 AUTHORISED CAPITAL

New authorised capital was created at the Annual General Meeting held on 17 May 2018 (Authorised Capital 2018). Accordingly, the Executive Board, with the approval of the Supervisory Board, is authorised to increase the share capital once or several times, by issuing new shares against contributions in cash or kind up to an overall maximum sum of 12.8 million euros until 3 June 2023. The full wording of the Executive Board's authorisation was published in the Federal Gazette under agenda item 6 of the invitation to the 2018 Annual General Meeting.

New authorised capital was created at the Annual General Meeting held on 12 May 2016 (Authorised Capital 2016). Accordingly, the Executive Board, with the approval of the Supervisory Board, is authorised to increase the share capital once or several times, by issuing new shares against contributions in cash or kind up to an overall maximum sum of 12.8 million euros until 1 June 2021. The full wording of the Executive Board's authorisation was published in the Federal Gazette under agenda item 7 of the invitation to the 2016 Annual General Meeting. In financial year 2019, the Executive Board made no use of this authorisation.

24.7 CONDITIONAL CAPITAL

In accordance with the resolution by the Annual General Meeting held on 12 May 2016, the company's share capital is subject to a conditional capital increase of up to 12.8 million euros by issuing up to 12,800,000 new no-par value registered shares, with each individual no-par-value share accounting for 1.00 euro of the share capital (Conditional Capital 2016). The purpose of the conditional capital increase is to enable registered no-par value shares to be granted to the holders or creditors of convertible and/or bonds with warrants which are issued on the basis of the authorisation as adopted by the Annual General Meeting of 12 May 2016 under agenda item 10, letter A) and which provides a conversion or option right or the right to delivery of shares in relation to the registered no-par-value shares of the company or which establishes a conversion or option obligation in relation to these shares.

The issue amount for the new no-par value registered shares is subject to regulations set out in section 4 (7) of the articles of association. The conditional capital increase is to be carried out only to the extent to which conversion or option rights or a right to delivery of shares are utilised or to which holders or creditors with a conversion or option obligation meet their conversion or option obligation and if treasury shares are not used for settlement or if the company does not provide a cash settlement. The new registered no-par-value shares participate in the profits from the beginning of the financial year in which they are created. The Executive Board is authorised to determine the further details for carrying out the conditional capital increase. In financial year 2019, the Executive Board made no use of this authorisation.

25 EMPLOYEE INCENTIVE PROGRAMMES

25.1 PROGRAMME 1

Programme 1, which had been granted to members of the Executive Board in 2011, was terminated in 2015 when paid out to the beneficiaries.

25.2 PROGRAMME 2

On 26 February 2014, agreements concerning the contracts of employment that grant new LTIPs (hereinafter referred to as "Programme 2") were entered into with the members of the Executive Board at the time.

In addition to the annual target agreement, a five-year target agreement was signed in which EBITDA in financial years 2014 to 2018 (for Mr Vilanek) and EBITDA in financial years 2015 to 2019 (for Mr Preisig and Mr Esch) was designated as the target parameter. In the event of acquisitions which are financed by the issuing of new shares, the earnings targets are adjusted proportionately to the effective net dilution effect on the date on which new shares are issued. A basic amount was specified in each beneficiary's employment contract for this remuneration component; this basic amount is entered in a virtual account for the Executive Board member in question as a positive or negative amount as described below and in accordance with target attainment in each financial year, and paid out in annual instalments depending on future performance provided that account shows a credit balance. Basic amounts totalling 1,050 thousand euros in each case were specified for each financial year for the beneficiaries.

If the Group EBITDA target is attained in a financial year, 100 per cent of the basic amount is credited to the virtual account. If the Group EBITDA defined for 120 per cent target attainment is achieved, 200 per cent of the basic amount is credited to the virtual account. Even if the 120 per cent target is exceeded, no more than 200 per cent of the basic amount is credited to the virtual account. When the respective target attainment is being determined, the Supervisory Board is entitled to reward exceptional performance and success by setting a notional Group EBITDA amount. If such a step results in the target attainment of 120 per cent being exceeded in arithmetical terms, the Supervisory Board may also set a higher level for target attainment, bearing in mind that a maximum of 300 per cent of the basic amount may be credited to the virtual account. If the target attainment for the defined Group EBITDA is between the fixed 90 per cent target and 100 per cent, a percentage of the basic amount which is reduced on a linear basis is credited to the virtual account; if only 90 per cent of the target is attained, nothing is credited to the virtual account for the financial year in question. If Group EBITDA fails to

meet the 90 per cent target, a negative amount of up to 200 per cent of the basic amount (if Group EBITDA is 80 per cent of the target or less) is debited to the virtual account. For the purpose of posting the (positive or negative) number of phantom shares in the virtual account, sub-accounts are maintained in the LTIP account bearing the designation of the financial year for which the number posted was ascertained.

The amount shown on the virtual account (known as the "allotment amount" as the product of the basic amount and the basic amount multiplier) is converted into phantom shares. This calculation is based on a reference share price, i.e. the average Xetra closing price on the 20 stock exchange trading days after the day on which the consolidated financial statements for the relevant financial year are published.

Starting from the end of the second financial year to benefit from the programme (for Mr Vilanek therefore starting from the financial year 2016, for Messrs Preisig and Esch starting from the financial year 2017), and in each case after the crediting to the virtual account of a (positive or negative) amount for the financial year ended, the respective beneficiary is entitled to have 25 per cent of the account balance paid out annually within a time frame of three months from the day which is 20 stock market trading days after the day on which the consolidated financial statements were published, provided that the account shows a credit balance. For this purpose, the respective balance of phantom shares is, in turn, converted into cash on the basis of the average Xetra closing price on the 20 stock exchange trading days after the day on which the consolidated financial statements for the relevant financial year are published. The increase in the share price is taken into account only up to a price of 50.00 euros (cap). Irrespective of that, the gross payout amount is restricted additionally in each financial year as follows: the maximum gross amount to be paid out per financial year corresponds to 25 per cent of 500 per cent of the number of phantom shares in the respective sub-account, multiplied by the applicable share price on which the calculation of the allotment amount when the respective post was made in the sub-account was based.

For the purpose of conversion into phantom shares, dividend payments, as well as circumstances for which dilution protection stipulations are applicable in the case of marketable financial instruments dependent on the share value, must be included in the calculations. If the virtual account shows a negative balance at the point at which a payment is due to be made, the Executive Board member in question will receive a (further) payment only when the negative amount has been cancelled out by success in attaining the relevant target parameters for the subsequent year or years.

The obligation arising from the LTIP programme was determined at fair value with the help of a recognised measurement model pursuant to IFRS 2. The main parameters in this measurement model are the share price of freenet AG as of the balance sheet date, the volatility of share prices in line with the remaining life of the LTIP programme, the estimate of target attainment for the respective financial year as well as the estimate of the discount rate. The graded vesting method is used; according to this method, the personnel expenses for all Executive Board members are incurred from the date on which the programme is granted, i.e. in this case as from 26 February 2014.

The development of the holdings in the virtual accounts for each Executive Board member for Programme 2 is shown in the following table:

PROGRAMME 2	Number of phantom shares 31.12.2018	Additions	Disposal by payout	**Number of phantom shares 31.12.2019**	**Provision 31.12.2019 in EUR '000s**
Christoph Vilanek	162,457	56,275	218,732	0	0
Joachim Preisig	55,543	30,691	55,543	30,691	678
Stephan Esch	44,089	20,460	0	64,549	1,870
Total	**262,089**	**107,426**	**274,275**	**95,240**	**2,548**

The actual target attainment defined for 2018 is 120 per cent. This means that 200 per cent of the base amount would be used for payment into the virtual account for Mr Vilanek, Mr Preisig and Mr Esch. This is equivalent to 1,100 thousand euros for Mr Vilanek, 600 thousand euros for Mr Preisig and 400 thousand euros for Mr Esch. After the consolidated financial statements for 2018 had been approved, this amount was converted into phantom shares for financial year 2018 based on an average share price of 19.55 euros, with the result that a total of 107,426 phantom shares was credited to the virtual accounts of the Executive Board members. Target attainment for the financial year ended 2019 will be 120 per cent.

In the previous year, a severance agreement was entered into with Mr Preisig, under which his employment on the Executive Board terminated on 31 December 2018. The severance agreement states that Mr Preisig will not be awarded any more phantom shares for financial year 2019. To compensate for any resulting disadvantage, Mr Preisig received a severance award of EUR 80 thousand paid in 2019, which is included in the provision for LTIP Programme 2 as at 31 December 2018.

In financial year 2019, personnel expenses of 1,919 thousand euros resulted from Programme 2, due to a reduction in the provision from 7,376 thousand euros (as of 31 December 2018) to 2,548 thousand euros as of 31 December 2019, and payments of 6,747 thousand euros from Programme 2 in 2019 (of which 5,421 thousand euros to Mr Vilanek and 1,326 thousand euros to Mr Preisig).

25.3 PROGRAMME 3

When the employment contract was extended (with Mr Vilanek, granted on 4 April 2018, and with Mr Esch, granted on 19 March 2019) and the appointment to the Executive Board made (for both Mr von Platen and Mr Fromme with effect from 1 June 2018; for Mr Arnold with effect from 1 January 2019), supplemental agreements to the employment contracts granting new LTIPs were entered into with the aforementioned members of the Executive Board (hereinafter referred to as “Programme 3”).

In addition to the annual target agreement, a five-year target agreement (in relation to Mr Vilanek and Mr Esch), a three-year and seven-month target agreement (in relation to Mr von Platen and Mr Fromme) and a three-year target agreement (in relation to Mr Arnold) was entered into, designating as the target metric target attainment from the respective annual variable remuneration for financial years 2019 to 2023 (for Mr Vilanek), financial years 2020 to 2024 (for Mr Esch), financial years 2018 (prorated as of the date of appointment to the Executive Board) to 2021 (for Mr von Platen and Mr Fromme) and financial years 2019 to 2021 (for Mr Arnold). A basic amount was specified in each beneficiary’s employment contract for this remuneration component; this basic amount is entered in a virtual account for the Executive Board member in question as a positive amount as described below and in accordance with target attainment in each financial year, and paid out in accordance with the terms of payout described in the text below, depending on future performance. Basic amounts totalling 1,650 thousand euros (of which 650 thousand euros for Mr Vilanek and 250 thousand euros in each case for Mr Esch, Mr von Platen, Mr Fromme and Mr Arnold) were specified for the beneficiaries for each full financial year.

If the level of target attainment of the annual variable target agreement for a financial year is 100 per cent, 100 per cent (as the basic amount multiplier) of the basic amount is credited to the virtual account. At most (if the level of target attainment is 125 per cent or above), 150 per cent of the basic amount is credited to the virtual account. If the level of target attainment is less than 70 per cent, no phantom shares are credited for the financial year in question. If target attainment is between 70 and 125 per cent, linear interpolation is used. For the purpose of posting the number of phantom shares in the virtual account, sub-accounts are maintained in the LTIP account bearing the designation of the financial year for which the number posted was ascertained.

The amount shown on the virtual account (known as the “allotment amount” as the product of the basic amount and the basic amount multiplier) is converted into phantom shares. This calculation is based on a reference share price, i.e. the average Xetra closing price in the twelve months of the relevant target period.

Irrespective of the level of target attainment calculated above, phantom shares are only entered for the most recent financial year covered by this LTIP programme if more than 90 per cent of a defined Group EBT target (for all Executive Board members except for Mr Esch, this relates to Group EBT achieved in financial year 2022; for Mr Esch this relates to the 2023

Group EBT) is attained. The actual number of phantom shares to be entered for this most recent financial year covered by the programme is calculated as follows: if the EBT target is attained precisely, the method of calculation described above is retained. If the EBT target is exceeded or missed, the number of phantom shares to be entered is increased or reduced as follows: if 105 per cent or more of the EBT target is attained, the number for entry calculated above is doubled. If 90 per cent or less of the EBT target is attained, the number for entry is reduced to zero. In each case, a value is linearly interpolated between the aforementioned levels of attainment of the EBT target.

A beneficiary is entitled to payouts from the LTIP if and to the extent that the EBT target is attained. The applicable reference value for this is Group EBT for financial year 2022 for all Executive Board members except for Mr Esch who are beneficiaries of Programme 3, and Group EBT for financial year 2023 for Mr Esch. If the Group EBT target is attained precisely, the number of phantom shares described above remains unchanged. If the EBT target is exceeded or missed, the number of phantom shares is doubled at most (target attainment is 105 per cent of more) or, in the worst-case scenario, set to 0 (target attainment is 90 per cent or less). In each case, a value is linearly interpolated between the aforementioned levels of attainment of the EBT target. The Executive Board member may request that the resulting payout be disbursed at the earliest when attainment of the EBT target (for all Executive Board members except for Mr Esch) is determined at the beginning of 2023 (and for Mr Esch at the beginning of 2024), but not before the end of the holding period for the number entered.

About the holding period: as a rule, the number entered must be held by the Executive Board member for three years as of 1 January of the year in which the number of phantom shares is entered in the LTIP account; if the employment contract is not extended at the end of the regular contract term, the holding period instead ends at the latest 18 months after the penultimate target period during the contract term, i.e. six months after the end of the contract term.

About the exercise period: at the end of the holding period, but not before attainment of the EBT target is determined, the Executive Board member is entitled during a period of two years as of the end of the holding period to request that the payout be disbursed. The payout may also be requested in partial amounts. If no payout is requested or if a payout is not requested within the specified period, the phantom shares concerned expire.

The maximum amount payable in each case is the number of phantom shares payable as calculated in accordance with the aforementioned principles, multiplied by the payout multiplier, plus the dividend. The payout multiplier is the average of the Xetra closing prices on all trading days during the twelve months before the date on which the payout is requested. Irrespective of share price performance, the payout multiplier is in each case capped at 50 euros. The dividend is the sum total of the amounts of the gross dividend per share disbursed in the period between the beginning of the holding period for the number entered and the date on which the payout is requested, multiplied by the number of phantom shares payable. When calculating this dividend, however, an amount of 20 euros per phantom share payable may not be exceeded (dividend cap). For the last scheduled financial year under the employment contract, for which phantom shares are only entered if the EBT target is attained, the Executive Board member is only entitled to payouts from the LTIP account if and to the extent that Group EBT for financial year 2023 exceeds Group EBT for financial year 2022 by at least 1.5 per cent (for all Executive Board members except for Mr Esch) or if and to the extent that consolidated EBT for financial year 2024 exceeds consolidated EBT for financial year 2023 by at least 1.5 percent (for Mr Esch).

Standard market anti-dilution provisions apply, i.e. in the event of a share split, a share consolidation or a capital increase from retained earnings where new shares are issued, for example, the number of phantom shares in the LTIP account is adjusted accordingly.

The obligation arising from the LTIP programme was determined at fair value with the help of a recognised measurement model pursuant to IFRS 2. The main parameters in this measurement model are the share price of freenet AG as of the balance sheet date, the volatility of share prices in line with the remaining life of the LTIP programme, the estimate of target attainment for the respective financial year as well as the estimate of the discount rate. The graded vesting method is used; according to this method, the personnel expenses for all Executive Board members are incurred from the date on which the programme is granted.

As at 31 December 2019, there were no phantom shares in the LTIP accounts of the Executive Board members who are beneficiaries of Programme 3.

Of the personnel expenses of 1,933 thousand euros recognised in 2019 (previous year: 988 thousand euros), 787 thousand euros is attributable to Mr Vilanek, 419 thousand euros to Mr Arnold, 250 thousand euros to Mr von Platen, 250 thousand euros to Mr Fromme and 227 thousand euros to Mr Esch.

Of the provision recognised as at 31 December 2019 in the amount of 2,921 thousand euros (31 December 2018: 988 thousand euros), 1,305 thousand euros is attributable to Mr Vilanek, 419 thousand euros to Mr Arnold, 485 thousand euros to Mr v. Platen, 485 thousand euros to Mr Fromme and 227 thousand euros to Mr Esch.

25.4 OTHER EMPLOYEE INCENTIVE PROGRAMMES

The Group has two further employee incentive programmes.

From an initial balance of 25,822 phantom shares as at 31 December 2018, 8,879 phantom shares were exercised through disbursements and 1,466 phantom shares expired under the programme for senior executives below the Executive Board level during the financial year, resulting in a final balance of 15,477 phantom shares as at 31 December 2019. The payments disbursed in 2019 amounted to 280 thousand euros. A provision of 501 thousand euros was recognised for this programme as at 31 December 2019. This programme therefore results in personnel expenses of 507 thousand euros for 2019.

The Group has a further employee incentive programme, which was recognised as a provision in the amount of 2,006 thousand euros as at 31 December 2019 (previous year: 1,307 thousand euros). Under the terms of the programme, the employees were granted phantom shares which are earned in annual tranches up to 2020. When the programme is concluded in 2020, the phantom shares will be paid out in the amount of the pro rata enterprise value.

26 TRADE ACCOUNTS PAYABLE, OTHER LIABILITIES AND DEFERRALS AND OTHER FINANCIAL LIABILITIES

Trade accounts payable, other liabilities and deferrals and other financial liabilities are comprised as follows:

	31.12.2019		
In EUR '000s	Total	Non-current	Current
Trade accounts payable	465,230	0	465,230
Other non-derivative financial liabilities	95,594	31,048	64,546
	560,824	**31,048**	**529,776**
Other financial liabilities	0	0	0
Financial liabilities	**560,824**	**31,048**	**529,776**
Other liabilities and deferrals	28,376	6,433	21,943
Prepayments received	481,177	100,945	380,232
Non-financial liabilities	**509,553**	**107,378**	**402,175**
Total trade accounts payable, other liabilities and deferrals, and other financial liabilities	**1,070,377**	**138,426**	**931,951**

	31.12.2018		
In EUR '000s	Total	Non-current	Current
Trade accounts payable	523,174	0	523,174
Other non-derivative financial liabilities	120,629	69,462	51,167
	643,803	**69,462**	**574,341**
Other financial liabilities	237,176	237,176	0
Financial liabilities	**880,979**	**306,638**	**574,341**
Other liabilities and deferrals	25,131	5,876	19,275
Prepayments received	527,114	110,046	417,068
Non-financial liabilities	**552,245**	**115,922**	**436,343**
Total trade accounts payable, other liabilities and deferrals, and other financial liabilities	**1,433,224**	**422,560**	**1,010,684**

As at 31 December 2019, there are no liabilities vis-à-vis related parties; please refer to note 34, Related party transactions.

Of the figure shown for liabilities, 931,951 thousand euros (previous year: 1,010,684 thousand euros) are due within the next twelve months. Liabilities amounting to 137,738 thousand euros (previous year: 277,793 thousand euros) have a maturity of between one year and five years; liabilities of 688 thousand euros (previous year: 144,767 thousand euros) are due in more than five years.

Of the figure shown for the liabilities, which is combined under financial liabilities, 529,776 thousand euros (previous year: 574,341 thousand euros) fall due within one year, 30,693 thousand euros (previous year: 161,871 thousand euros) fall due between one and five years and 355 thousand euros (previous year: 144,767 thousand euros) fall due after more than five years after the balance sheet date.

The finance lease liabilities shown as of 31 December 2018 concern a master lease agreement with an infrastructure provider regarding the use of radio infrastructures (such as towers and masts) at radio locations and other sites, due to run until 31 December 2027. The Media Broadcast Group has the right to demand that the agreement be extended by ten years until 31 December 2037. The probability of this extension option being exercised has been assumed to be less than 50 per cent.

The carrying amounts of the non-current finance lease assets for technical equipment and machinery as of 31 December 2018 amounted to 248,065 thousand euros.

The interest portions of future lease instalments and the present values of total finance lease liabilities break down as follows:

In EUR '000s	31.12.2019	31.12.2018
Within one year	0	33,744
Between one and five years	0	138,786
More than five years	0	145,072
	0	**317,602**
Interest portion of future lease instalments		
Within one year	0	– 10,719
Between one and five years	0	– 32,833
More than five years	0	– 13,849
Present values of total finance lease liabilities	**0**	**260,201**

The maturities of the total **finance lease** liabilities are shown below:

In EUR '000s	31.12.2019	31.12.2018
Within one year	0	23,025
Between one and five years	0	105,953
More than five years	0	131,223
Total	**0**	**260,201**

The figure disclosed in the balance sheet corresponds to the present value of the contractual minimum lease payments. The interest rate used as the basis for recognising the finance lease liabilities resulting from this is 4.12 per cent.

Current trade accounts payable break down as follows:

In EUR '000s	31.12.2019	31.12.2018
Liabilities to network operators, dealers, distributors, hardware manufacturers (Mobile Communications)	297,105	307,359
Liabilities to sales partners from contracts with customers	73,669	84,541
Finance lease commitments (DFMG)	0	23,025
Obligations from distribution rights	29,750	29,750
Other	64,706	78,499
Total	**465,230**	**523,174**

Current other financial liabilities are comprised as follows:

In EUR ’000s	31.12.2019	31.12.2018
Personnel obligations	14,106	18,040
Refund liabilities	39,041	22,225
Other	11,399	10,902
Total	**64,546**	**51,167**

Non-current other financial liabilities are comprised as follows:

In EUR ’000s	31.12.2019	31.12.2018
Finance lease commitments (DFMG)	0	237,176
Obligations from distribution rights	0	29,750
Liabilities to sales partners from contracts with customers	21,436	26,148
Obligations from put options	0	13,543
Obligations from earn-outs	7,173	0
Other	2,439	21
Total	**31,048**	**306,638**

Current other liabilities and deferrals are comprised as follows:

In EUR ’000s	31.12.2019	31.12.2018
Deferred income from bonuses and commissions received from network operators	322,057	344,885
Deferred income from customer credit balances, Mobile Communications	36,095	51,087
Liabilities to customers from contracts with customers	16,280	15,903
Other	27,743	24,468
Total	**402,175**	**436,343**

Non-current other liabilities and deferrals are comprised as follows:

In EUR ’000s	31.12.2019	31.12.2018
Deferred income from bonuses and commissions received from network operators	100,945	110,046
Liabilities to customers from contracts with customers	6,433	5,876
Total	**107,378**	**115,922**

27 CURRENT INCOME TAX LIABILITIES

Current income tax liabilities consist mainly of anticipated additional corporation tax and trade tax payments for previous financial years.

28 BORROWINGS AND LEASE LIABILITIES

Borrowings are structured as follows:

In EUR millions	31.12.2019	31.12.2018
Liabilities from promissory notes	819.1	1,091.8
Liabilities to banks	608.9	607.7
Non-current	**1,428.0**	**1,699.4**
Liabilities from promissory notes	264.5	22.4
Liabilities to banks	1.1	1.1
Current	**265.6**	**23.5**
Total	**1,693.6**	**1,722.9**

The bank loan, which was increased to 910.0 million euros in 2018, continues to consist of a bullet loan with a nominal amount of 610.0 million euros and a revolving credit facility for 300.0 million euros, which had not been drawn down as at the reporting date.

The loan which is due upon final maturity is shown, less fees, in an amount of 610.0 million euros under liabilities to banks (thereof non-current: 609.0 million euros, thereof current: 1.0 million euros).

The promissory notes from the years 2015, 2016 and 2018 with a total nominal amount of 1,079.0 million euros (31 December 2018: 1,110.0 million euros) are shown, less fees, with an amount of 1,083.6 million euros in liabilities from promissory notes (thereof non-current: 819.1 million euros, thereof current: 264.5 million euros). In financial year 2019, a total amount of 31.0 million euros was repaid ahead of schedule from the 2016 promissory note loans.

Net debt amounted to 2,031.1 million euros as at 31 December 2019 (31 December 2018 restated: 1,856.8 million euros). In order to align the management system more closely with the strategic focus and management of the freenet Group, various performance indicators were revised and refocused for financial year 2019. In this context, net debt was redefined as short- and long-term borrowings, plus net lease liabilities (lease liabilities less lease receivables), less liquid assets as at the reporting date. Net debt is a non-GAAP measure.

The Group's lease liabilities are broken down into the corresponding lease categories as follows:

In EUR millions	31.12.2019	Opening balance sheet pursuant to IFRS 16 1.1.2019
Site leases	290.4	346.5
Shops/stores	92.4	105.1
Co-location leases	73.6	75.1
Network infrastructure	6.6	8.3
Motor vehicles	3.0	3.0
Other	7.3	12.2
Non-current	**473.3**	**550.2**
Site leases	38.9	40.3
Shops/stores	19.7	19.3
Co-location leases	10.0	8.3
Motor vehicles	4.1	3.2
Network infrastructure	1.9	4.2
Other	5.4	5.2
Current	**80.0**	**80.5**
Total	**553.3**	**630.7**

More information in connection with IFRS 16 is provided in note 2.5, Leases.

29 PENSION PROVISIONS AND SIMILAR OBLIGATIONS

The pension obligations are based on defined benefit and contribution plans. The pension benefit provided in each case is the payment of a lifetime retirement pension upon reaching the age of 60 or 65 and the payment of benefits to surviving dependants. The pension benefits are partly financed by a reinsured pension scheme. All pension commitments are always determined by the salary amount and the length of service at the company. The Executive Board commitments are fully funded. They are secured by a reinsured pension scheme as well as pledged pension liability insurance policies with a fair value totalling 14,851 thousand euros (previous year: 12,387 thousand euros).

The provision in the consolidated balance sheet is calculated as follows:

In EUR '000s	31.12.2019	31.12.2018
Present value of funded obligations	28,795	22,715
Present value of unfunded obligations	84,843	78,845
Present value of obligations	**113,638**	**101,560**
Fair value of plan assets	– 14,851	– 12,387
Provision recognised	**98,787**	**89,173**

It is expected that these obligations will be fulfilled in the long term. The following table sets out the development in the present value of the funded and unfunded obligations:

In EUR '000s	2019	2018
As of 1.1.	**101,560**	**99,335**
Current service cost	1,841	2,208
Past service cost	222	0
Gross interest expense	2,092	1,972
Employe contributions	9	13
Settlement of pension obligations	– 27	– 106
Actuarial losses/gains		
Thereof due to experience adjustments	– 1,226	667
Thereof due to demographic parameter adjustments	0	1,017
Thereof due to financial parameter adjustments	12,819	– 1,682
Actuarial losses/gains, subtotal	**11,593**	**2**
Payments made	– 3,652	– 1,864
As of 31.12.	**113,638**	**101,560**

The weighted average remaining term of the obligations as of 31 December 2019 amounted to 24.8 years for the freenet plan (previous year: 24.8 years), 17.7 years for the debitel plans (previous year: 17.0 years) and 10.2 years for the plans of the Media Broadcast Group (previous year: 9.9 years).

The following amounts have been shown for the defined benefit plans for the current reporting period and the previous reporting periods:

In EUR '000s	2019	2018	2017	2016	2015
Present value of funded obligation	28,795	22,715	21,266	21,026	16,162
Present value of unfunded obligation	84,843	78,845	78,069	79,541	41,604
Fair value of plan assets	– 14,851	– 12,387	– 11,426	– 7,929	– 6,575
Plan deficit	**98,787**	**89,173**	**87,909**	**92,638**	**51,191**
Experience adjustments of plan liabilities	– 1,226	667	– 320	45	284
Experience adjustments of plan assets	53	– 766	– 67	– 112	– 226

The plan assets consist of several pension liability insurance policies entered into by the pension scheme set up for this purpose with an aggregate fair value of 14,851 thousand euros (previous year: 12,387 thousand euros). The pension liability insurance policies invest the plan assets in equity funds or shares that are quoted in an active market. There is no active market for the pension liability insurance policies. The development of fair value is set out in the table below:

In EUR '000s	2019	2018
As of 1.1	**12,387**	**11,426**
Interest on plan assets (through income statement, with interest in accordance with IAS 19)	366	259
Differences between the expected and actual income from plan assets (recognised through other comprehensive income)	53	– 766
Employer contributions to plan assets	2,045	5,025
Reclassification to other financial assets	0	– 3,557
As of 31.12.	**14,851**	**12,387**

The actual income from the plan assets amount to 419 thousand euros (previous year: expenses of 508 thousand euros), and are calculated as the sum of the calculated expenses or income from the plan assets and the actuarial gains or losses.

For financial year 2020, freenet is expecting payments of 1,626 thousand euros into the plan assets and payments of 2,806 thousand euros out of the plan assets for pensions. In the previous year 2018, freenet had expected for financial year 2019 payments of 1,073 thousand euros into the plan assets and payments of 3,240 thousand euros out of the plan assets for pensions.

The amounts recognised as provisions in the balance sheet developed as follows:

In EUR '000s	2019	2018
As of 1.1.	**89,173**	**87,909**
Current service cost	1,841	2,208
Past service cost	222	0
Net interest expense	1,725	1,713
Gains on the settlement of pension obligations	– 4	– 38
Subtotal: amount recognised in the consolidated income statement	**3,784**	**3,883**
Remeasurement:		
Experience-based gains (–)/losses (+)	– 1,226	667
Gains (–)/losses (+) due to demographic parameter adjustments	0	1,017
Gains (–)/losses (+) due to financial parameter adjustments	12,819	– 1,682
Return on (–)/costs (+) of plan assets not already included in net interest expense	– 53	766
Subtotal: remeasurements recognised through other comprehensive income	**11,539**	**768**
Payments made	– 3,673	– 1,932
Employer contributions to plan assets	– 2,045	– 5,025
Employees' contributions	9	13
Reclassification to other financial assets	0	3,557
As of 31.12.	**98,787**	**89,173**

The following significant actuarial assumptions were made:

In %	31.12.2019	31.12.2018
Discount rate (freenet, debitel plans)	1.49	2.22
Discount rate (Media Broadcast Group plans)	1.01	1.73
Future salary increases (debitel plan)	1.75	1.75
Future salary increases (Media Broadcast Group plans)	2.25	2.25
Future pension increases (debitel plan)	1.75	1.75
Future pension increases (freenet plan)	1.75	1.75
Future pension increases (Media Broadcast Group plans)	1.70	1.70

The RT 2018G mortality tables created by Dr Klaus Heubeck have been used as the biometric basis.

The sensitivities of the present value of the funded and unfunded obligations have been calculated on the basis of actuarial reports. We provide the following information in this respect:

31.12.2019	Change in present value of obligations	
In EUR '000s	Increase	Decrease
Increase in discount rate by 1.0 percentage points		17,033
Decrease in discount rate by 1.0 percentage points	22,167	
Increase in future salary increases by 0.5 percentage points	255	
Decrease in future salary increases by 0.5 percentage points		13
Increase in future pension increases by 0.25 percentage points	1,940	
Decrease in future pension increases by 0.25 percentage points		1,839
Life expectancy: +2 years	6,077	

31.12.2018	Change in present value of obligations	
In EUR '000s	Increase	Decrease
Increase in discount rate by 1.0 percentage points		14,461
Decrease in discount rate by 1.0 percentage points	18,668	
Increase in future salary increases by 0.5 percentage points	– 42	
Decrease in future salary increases by 0.5 percentage points		20
Increase in future pension increases by 0.25 percentage points	1,566	
Decrease in future pension increases by 0.25 percentage points		1,545
Life expectancy: +2 years	4,745	

The sensitivities were calculated on the basis of the same holdings and using the same valuation method as that used for determining the extent of the obligation as of 31 December 2019. For this purpose, one parameter was varied and the other parameters were left unchanged. Any interdependencies between individual parameters occurring in practise are disregarded.

30 OTHER PROVISIONS

The following overview gives a breakdown of the development of the provisions' carrying amounts:

In EUR '000s	1.1. 2019	Effects of the transition to IFRS 16 as of 1.1.2019	Additions (Initial consolidation)	Use	Reversal	Discounting/ Unwinding of discount	Addition	Disposals (Deconsolidation)	Reclassification	Transfer Reclassification	31.12. 2019	non-current	current
Other													
Contingent losses	2,043	– 1,932	0	46	65	0	230	0	0	0	230	0	230
Litigation	1,504	0	20	265	271	0	259	30	30	0	1,247	0	1,247
Asset retirement obligations	44,015	0	0	451	1,600	– 680	192	0	324	0	41,800	36,258	5,542
Warranty/ guarantee	45	0	0	2	0	0	0	43	0	0	0	0	0
Storage costs	466	0	5	0	106	5	17	31	42	0	398	398	0
License costs	4,052	0	0	0	480	0	0	0	0	0	3,572	0	3,572
Reimbursement obligations	3,266	0	0	0	324	0	0	0	0	– 2,942	0	0	0
Other	4,763	0	0	66	131	0	314	0	– 396	– 4,171	313	0	313
	60,154	**– 1,932**	**25**	**830**	**2,977**	**– 675**	**1,012**	**104**	**0**	**– 7,113**	**47,560**	**36,656**	**10,904**
Personnel													
Employee incentive programmes	9,945	0	0	5,790	9	0	3,830	0	0	0	7,976	3,171	4,805
Service anniversaries	952	0	0	184	241	0	907	0	0	0	1,434	1,270	164
Restructuring	1,828	0	0	996	659	0	0	0	0	0	173	0	173
Other	981	0	0	273	0	1	414	0	0	– 320	803	109	694
	13,706	**0**	**0**	**7,243**	**909**	**1**	**5,151**	**0**	**0**	**– 320**	**10,386**	**4,550**	**5,836**
Total	**73,860**	**– 1,932**	**25**	**8,073**	**3,886**	**– 674**	**6,163**	**104**	**0**	**– 7,433**	**57,946**	**41,206**	**16,740**

Provisions for contingent losses concern, among others, expected losses from tariffs with a negative margin in the amount of 230 thousand euros, for which the expected outflow of assets is expected in the full amount in 2020.

Litigation provisions relate to the probable costs of various legal actions against Group companies as well as other as yet unresolved disputes with third parties. Most of these provisions relate to litigation with former trade partners and customers as well as issues of competition law. The Group is anticipating a complete asset outflow in 2020. To avoid disclosing prematurely, and therefore endangering, the legal and negotiation position, we shall refrain from giving further information at this juncture.

The provision for make good obligations resulting from the acquisition of the Media Broadcast Group mainly comprises obligations for the dismantling and removal of radio infrastructure at numerous locations. Following the probable expiry of the underlying rental agreements, the outflow of funds is expected to be 4,335 thousand euros in 2020 and 32,261 thousand euros in the years from 2021 to 2030. There are further obligations to dismantle and remove tenant fittings at various technology and administration locations of the Group. Following the probable expiry of the underlying rental agreements, the outflow of funds is expected to be 1,207 thousand euros in 2020 and 3,997 thousand euros in the years from 2021 to 2029.

Further details concerning the recognition of provisions for employee incentive programmes are documented under note 25, Employee incentive programmes.

Provisions for service anniversaries have been recognised; the outflow of assets for 2020 is expected to be 164 thousand euros and the outflow of assets for the years 2021 to 2039 is expected to be 1,270 thousand euros. A discount rate of 0.74 per cent and an average period of seven years between the balance sheet date and the actual payment have been assumed as the basis for calculation.

The provisions for restructuring mainly comprise personnel expenses for severance payments. The full outflow of assets for these provisions is expected for 2020.

As a result of the acquisition of the Media Broadcast Group, the company also acquired obligations for semi-retirement and long-term work accounts. These obligations are netted with the fair values of the corresponding plan assets as of every balance sheet date. As of 31 December 2019, the provisions before netting for long-term work accounts amounted to 5,201 thousand euros (previous year: 5,575 thousand euros), and the corresponding provisions for semi-retirement amounted to 1,068 thousand euros (previous year: 2,076 thousand euros).

In EUR '000s	2019
Long-term work accounts	
Obligation as at 1.1.	5,575
Payments from long-term work accounts	– 1,000
Personnel expenses	341
Interest expense	285
Obligation as of 31.12. before netting	**5,201**
Fair value of plan assets as of 1.1.	6,149
Payments from plan assets	– 500
Loss on plan assets	576
Plan assets as of 31.12.	**6,225**

In EUR '000s	2019
Semi-retirement	
Obligation as at 1.1.	2,076
Payments from semi-retirement accounts	– 1,012
Personnel expenses	– 1
Interest expense	5
Obligation as of 31.12. before netting	**1,068**
Fair value of plan assets as of 1.1.	1,744
Payments from plan assets	– 700
Loss on plan assets	– 4
Plan assets as of 31.12.	**1,040**

The remaining provision of 285 thousand euros is shown in the statement of changes in provisions under “Other” under “Personnel”.

31 OTHER FINANCIAL OBLIGATIONS, CONTINGENT LIABILITIES AND CREDIT ENHANCEMENTS

As at the end of the financial year, there are operating lease commitments (which cannot be terminated) from rental and lease agreements, maintenance, support and other obligations as well as order commitments in the following amounts:

In EUR '000s	31.12.2019	31.12.2018
Rental and lease obligations		
Due within one year	0	73,813
Due within one and five years	0	240,349
Due after more than five years	0	129,859
	0	**444,021**
Thereof already recognised as a provision for contingent losses	0	3,566
	0	**440,455**
Maintenance, support and other obligations		
Due within one year	35,520	44,519
Due within one and five years	74,460	105,734
Due after more than five years	25	4,020
	110,005	**154,273**
Order commitments		
Regarding intangible assets	0	0
Regarding property, plant and equipment	754	2,701
Regarding inventories, expenses and services	80,043	132,749
	80,797	**135,450**
Total	**190,802**	**730,178**

The reconciliation of future minimum lease payments from operating leases reported as of 31 December 2018 in accordance with IAS 17 (440.5 million euros) with the lease liabilities recognised as of 1 January 2019 in accordance with IFRS 16 are shown under note 2.5.1, freenet as lessee.

As in 2018, obligations under maintenance, support and other agreements consist mainly of agreements regarding the maintenance of IT hardware and databases, building services, network infrastructure and the outsourcing of business processes in customer service.

The order commitments as at the end of the financial year amounted to 80,797 thousand euros (previous year: 135,450 thousand euros). Of this sum, 754 thousand euros (previous year: 2,701 thousand euros) is attributable to the procurement of non-current assets. There are other purchase commitments amounting to 80,043 thousand euros (previous year: 132,749 thousand euros). These are mainly obligations relating to the sourcing of power for production at the various rental locations as well as broadband connections within the context of media networks (audio and video broadcasts).

Other contingent liabilities have arisen as a result of letters of comfort and rent guarantees, their aggregate total as at the balance sheet date being 37,174 thousand euros (previous year: 34,013 thousand euros). It is not expected that any claims will be submitted under the terms of the letters of comfort and rent guarantees because it is expected that the corresponding invoices will be paid in line with the contractual agreements and that the corresponding rental agreements will be paid regularly.

The following contingent liability exists as at 31 December 2019: In a letter from the Federal Ministry of Finance dated 4 December 2014 and a simultaneous addendum to the VAT application decree, the financial authority issued the following ruling: If the intermediary in a mobile communications contract supplies the customer in the intermediary's own name with a mobile communications device or some other electronic article, and if the mobile communications company grants the intermediary a commission dependent on the supply of the mobile communications device or other electronic articles on the basis of a contractual agreement, or part of a commission dependent on the above, such a commission or part of a commission shall not be regarded as remuneration for an intermediary brokering role vis-à-vis the mobile communications company, but rather as remuneration from a third party as defined by section 10 (1) sentence 3 of the German VAT Act (Umsatzsteuergestz–UStG) for the supply of the mobile communications device or the other electronic article. This applies irrespective of the amount of any additional payment to be made by the customer. The application of this rule as from 1 January 2015 does not involve any reportable risks for the company. As for the revenue reported before 1 January 2015, the company regards it as very likely that the ruling specified above will have no significant negative effects for freenet AG under VAT law. However, a low risk remains for the revenue reported before 1 January 2015 for assessment periods that have not been audited conclusively; if this risk materialises, freenet AG would have to refund some of its input tax to the tax authorities.

32 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

In the consolidated statement of cash flows, the figures are reported for the Group (continuing and discontinued operations). In financial year 2019, as in the previous year, the cash flows were attributable solely to continuing operations.

Cash funds consist of cash at banks, cash in hand, cheques, short-term money market instruments that can be liquidated at any time and current financial liabilities, each with an original term of up to three months. As in the previous year, cash funds do not include any liquid assets from discontinued operations.

The cash flows are broken down into operating activities, investing activities and financing activities. The indirect presentation method has been used to present cash flows from operating activities.

The item "Increase in net working capital not attributable to investing or financing activities" contains the change in the balance sheet items "Trade accounts receivable", "Other receivables and other assets", "Other financial assets", "Inventories", "Trade accounts payable", "Other liabilities and deferrals", "Other financial liabilities", "Other provisions", and the change in other assets and liabilities not attributable to investing or financing activities.

As an alternative performance measure redefined at the beginning of financial year 2019, free cash flow shows even more clearly the amount of cash generated that can be used to pay dividends or repay borrowings, for example. Accordingly, interest paid, interest received and proceeds from the cash repayment of financial assets under leases are included in cash flows from operating activities and cash repayments of lease liabilities (as a component of cash flows from financing activities) are included in the calculation of free cash flow.

32.1 CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows from operating activities increased by 35.4 million euros year-on-year to 364.2 million euros. EBITDA declined by 14.4 million euros compared with the previous year. Besides a year-on-year decrease of 25.2 million euros in the adjustment for non-cash income from the disposal of non-current assets (previous year: sale of analogue radio infrastructure), cash flows from operating activities were also positively impacted by the reduction of 21.6 million euros in contract acquisition costs recognised as assets (mainly sales commissions paid) and the proceeds of 14.9 million euros from the payment of lease receivables reported for the first time in connection with IFRS 16. In addition, freenet AG received a dividend payment that was 4.6 million euros higher (41.5 million euros) as a result of the dividend of 4.20 CHF per share decided at the Annual General Meeting of Sunrise on 10 April 2019. The 10.5 million euro increase in the rise in net working capital and the higher interest payments in connection with the new lease accounting had the opposite effect.

32.2 CASH FLOWS FROM INVESTING ACTIVITIES

In financial year 2019, the cash flows from investing activities developed from – 333.1 million euros in the previous year to – 38.8 million euros. This was primarily due to the payments made in the previous year for the acquisition of the shares in CECONOMY in the amount of 277.4 million euros and for the acquisition of 100 per cent of the shares in The Cloud Group in the amount of 12.4 million euros. Within the context of the initial consolidation of The Cloud Group as of 1 January 2019, the freenet Group received cash funds in the amount of 3.1 million euros. In this connection, please also refer to note 35, Acquisitions.

The cash outflows for investments in intangible fixed assets and in property, plant and equipment, netted out against the cash inflows from such assets, decreased in 2019 by 2.7 million euros compared with the previous year from 43.3 million euros to 40.6 million euros. The cash investments were financed entirely out of the company's retained earnings.

32.3 CASH FLOWS FROM FINANCING ACTIVITIES

Cash flows from financing activities changed from – 192.3 million euros in the prior-year period to – 318.0 million euros. The change is mainly the result of the prior-year inflows from the bridge loan for the acquisition of the shares in CECONOMY and from raising a promissory note loan in the amount of 376.3 million euros. In addition, two prior-year effects attributable to the repayment of the bridge loan raised (277.8 million euros) and the repayment of a promissory note loan (54.5 million euros) had the opposite effect. Repayments of borrowings in the amount of 31.0 million euros in financial year 2019 relate to the early repayment of a portion of two promissory note loan from 2016. Cash payments for the principal portion of lease liabilities amounted to 74.6 million euros in the past year. In the previous year (21.8 million euros), this item only included the master lease agreement classified as a finance lease; now it also includes payments relating to operating leases.

An unchanged dividend of 211.2 million euros was distributed in May 2019.

32.4 CALCULATING THE UNDERLYING FIGURE FOR THE CONSOLIDATED STATEMENT OF CASH FLOWS

The underlying figure for the statement of cash flows is EBIT generated by continuing and discontinued operations. The following shows the way in which this EBIT figure is derived from the consolidated income statement.

In EUR '000s	1.1.2019–31.12.2019	1.1.2018–31.12.2018
Earnings before taxes	238,078	234,002
Financial result	31,876	77,986
EBIT	**269,954**	**311,988**

32.5 RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

The following reconciliation shows the liabilities from financing activities for the period from 1 January 2019 to 31 December 2019.

In EUR '000s	1.1.2019	Effects of changes in the basis of consolidation[1]	Cash changes[2]	Changes in fair value[3]	Other changes[4]	31.12.2019
Non-current borrowings	1,699,424	0	0	1,288	– 272,703	1,428,009
Current borrowings	14,985	0	– 31,000	0	274,213	258,198
Current financial borrowings from interest accruals	8,491	0	0	0	– 1,079	7,412
Liabilities from finance leases	630,672	– 1,371	– 74,603	0	– 1,422	553,276
Total liabilities from financing activities	**2,353,572**	**– 1,371**	**– 105,603**	**1,288**	**– 991**	**2,246,895**

[1] This includes effects from the initial consolidation of The Cloud Group (0.6 million euros) and the deconsolidation of MOTION TM (– 2.0 million euros).
[2] The cash changes within borrowings include cash repayments of borrowings (– 31.0 million euros) as well as cash repayments of lease liabilities (– 74.6 million euros).
[3] This includes the non-cash unwinding of discounts in accordance with the effective interest method.
[4] This includes non-cash changes due to reclassifications and interest accruals.

Liabilities from financing activities for the period from 1 January 2018 to 31 December 2018 break down as follows:

In EUR '000s	1.1.2018	Cash changes[1]	Changes in fair value[2]	Other changes[3]	31.12.2018
Non-current borrowings	1,666,001	44,001	3,410	– 13,988	1,699,424
Current borrowings	0	0	0	14,985	14,985
Current financial borrowings from interest accruals	7,145	0	0	1,346	8,491
Liabilities from finance leases	281,955	– 21,754	0	0	260,201
Total liabilities from financing activities	**1,955,101**	**22,247**	**3,410**	**2,343**	**1,983,101**

[1] The cash changes within borrowings include proceeds from new borrowings (376.3 million euros) as well as cash repayments of borrowings (– 332.3 million euros).
[2] This includes the non-cash unwinding of discounts in accordance with the effective interest method.
[3] This includes non-cash changes due to reclassifications and interest accruals.

33 INFORMATION ON FINANCIAL INSTRUMENTS

33.1 DISCLOSURES IN ACCORDANCE WITH IFRS 7

This section provides an overview of the significance of financial instruments for the Group, while also providing additional information on balance sheet items containing financial instruments.

We are setting out the following information for the purpose of presenting the financial instruments in the Group as at 31 December 2019 and 31 December 2018:

Financial instruments according to categories as at 31 December 2019

In EUR '000s	IFRS 9 measurement category	Carrying amount	Measurement				Fair value of financial instruments
		31.12.2019	Amortised cost	Cost	Fair value through profit or loss	Fair value through other comprehensive income	31.12.2019
Assets							
Cash/liquid assets	AC	133,692	133,692				—[1]
Trade accounts receivable		294,431					
At amortised cost	AC	187,283	187,283				—[1]
Fair value through profit or loss	FVTPL	107,148			107,148		—[1]
Other financial assets		314,667					
Lease receivables	n/a	82,178					
Non-derivative financial assets							
At amortised cost	AC	23,402	23,402				—[1]
Other financial assets							
Fair value through profit or loss	AC	6,207	6,207				—[1]
Fair value through other comprehensive income	FVTPL	22,765			22,765		
Other equity instruments							
Fair value through profit or loss	FVTPL	826			826		—[1]
Fair value through other comprehensive income	FVTOCI	179,289				179,289	179,289
Equity and liabilities							
Lease liabilities	n/a	553,276					
Trade accounts payable	AC	465,230	465,230				
Borrowings		1,693,619	1,693,619				
Borrowings from promissory notes	AC	1,077,261	1,077,261				1,087,259
Other borrowings	AC	616,358	616,358				
Other financial liabilities		95,594					
Non-derivative financial liabilities	AC	68,881	68,881				
Fair value through other comprehensive income	FVTPL	26,713			26,713		—[1]

[1] No fair value has been determined for the items; however, the carrying amount is a reasonable approximation of the fair value. This means that the aggregate fair value for the measurement categories AC and FVTPL are considerably lower than the corresponding aggregate carrying amounts in the balance sheet.

Continued on the next page.

In EUR '000s	IFRS 9 measurement category	Carrying amount	Measurement				Fair value of financial instruments
		31.12.2019	Amortised cost	Cost	Fair value through profit or loss	Fair value through other comprehensive income	31.12.2019
Thereof aggregated by IFRS 9 measurement category							
Assets							
At amortised cost	AC	350,584	350,584				—[1]
Fair value through profit or loss	FVTPL	130,739			130,739		—[1]
Fair value through other comprehensive income	FVTOCI	179,289				179,289	179,289
Equity and liabilities							
Fair value through profit or loss	AC	2,227,730	2,227,730				1,087,259[1]
Fair value through other comprehensive income	FVTPL	26,713			26,713		—[1]

[1] No fair value has been determined for the items; however, the carrying amount is a reasonable approximation of the fair value. This means that the aggregate fair value for the measurement categories AC and FVTPL are considerably lower than the corresponding aggregate carrying amounts in the balance sheet.

Financial instruments according to categories as at 31 December 2018

In EUR '000s	IFRS 9 measurement category	Carrying amount	Measurement				Fair value of financial instruments
		31.12.2018	Amortised cost	Cost	Fair value through profit or loss	Fair value through other comprehensive income	31.12.2018
Assets							
Cash/liquid assets	AC	126,332	126,332				—[1]
Trade accounts receivable		306,394					
At amortised cost	AC	230,386	230,386				—[1]
Fair value through profit or loss	FVTPL	76,008			76,008		—[1]
Other financial assets		161,122					
Non-derivative financial assets							
At amortised cost	AC	22,053	22,053				—[1]
Other financial assets							
At amortised cost	AC	9,188	9,188				—[1]
Fair value through profit or loss	FVTPL	24,273			24,273		
Other equity instruments							
Fair value through profit or loss	FVTPL	654			654		—[1]
Fair value through other comprehensive income	FVTOCI	104,954				104,954	104,954
Equity and liabilities							
Trade accounts payable		523,174	523,174				
Other trade accounts payable	AC	500,149	500,149				
Borrowings		1,722,900	1,722,900				
Borrowings from promissory notes	AC	1,106,751	1,106,751				1,112,651
Other borrowings	AC	616,149	616,149				
Other financial liabilities		357,805					
Non-derivative financial liabilities	AC	120,629	120,629				—[1]

[1] No fair value has been determined for the items; however, the carrying amount is a reasonable approximation of the fair value. This means that the aggregate fair value for the measurement categories AC and FVTPL are considerably lower than the corresponding aggregate carrying amounts in the balance sheet.

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In EUR '000s	IFRS 9 measurement category	Carrying amount	Measurement				Fair value of financial instruments
		31.12.2018	Amortised cost	Cost	Fair value through profit or loss	Fair value through other comprehensive income	31.12.2018
Thereof aggregated by IFRS 9 measurement category							
Assets							
At amortised cost	AC	387,959	387,959				—[1]
Fair value through profit or loss	FVTPL	100,935			100,935		—[1]
Fair value through other comprehensive income	FVTOCI	104,954				104,954	104,954
Equity and liabilities							
At amortised cost	AC	2,343,678	2,343,378				1,112,651[1]

[1] No fair value has been determined for the items; however, the carrying amount is a reasonable approximation of the fair value. This means that the aggregate fair value for the measurement categories AC and FVTPL are considerably lower than the corresponding aggregate carrying amounts in the balance sheet.

The non-financial assets constitute that part of the balance sheet item “Other receivables and other assets” which is not covered by the scope of IFRS 7.

The non-financial liabilities constitute the balance sheet item “Other liabilities and deferrals”, which is not covered by the scope of IFRS 7.

The fair value of cash and cash equivalents, trade accounts receivable, other current financial assets and other current financial liabilities is roughly equivalent to the carrying amount. This is due to the short remaining terms of these financial instruments.

The fair values of the non-current trade accounts receivable and other financial assets with remaining terms of more than one year correspond to the present values of the payments associated with the assets, with due consideration being given to the relevant interest parameters. The other equity instruments measured at fair value through profit or loss do not include listed shares; there is no active market for them. If there are indications that fair values are lower or higher, these are recognised.

For other equity instruments measured at fair value through other comprehensive income, the Group recognises the fair value as the market value in an active market. The other equity instruments relate to the investment in CECONOMY (carrying amount as at 31 December 2019: 178.8 million euros) and securities to back pension obligations. As of 31 December 2019, the impairment loss on the fair value of the interests in CECONOMY was reversed through OCI in the amount of 74.4 million euro (carrying amount as of 31 December 2018: 104.4 million euros).

As a result of the discounting carried out using the effective interest rate method and based on the current level of interest rates, there are only minor differences between the carrying amounts of the financial instruments and the corresponding fair values. Because of the maturity involved, the fair value of the current borrowings corresponds to the carrying amount. The fair value of the non-current borrowings exceeds their carrying amount by 9,998 thousand euros as at 31 December 2019 (previous year: 5,900 thousand euros). This difference results from the measurement of the promissory note loan at fair value; this was ascertained as at the measurement date using up-to-date estimates of the company’s own credit risk and the interest rate level.

The fair value of the other equity instruments that are not traded on an exchange is determined by the Group on the basis of recognised actuarial methods (discounted cash flow method or option price models). The expected future cash flows from the financial instrument are calculated on the basis of the relevant interest rate structure and forward curves and are then discounted as of the closing date. The market value confirmations received from the external partners are periodically compared with the internally determined market values. The Group had no derivative financial instruments as at 31 December 2019.

The following overview shows the major parameters on which the assessment of the fair value of financial instruments, and the assessment of the financial instruments shown at fair value in accordance with IFRS 7 are based. The individual levels are defined in accordance with IFRS 13 as follows:

- Level 1

Unchanged use of prices from active markets for identical financial assets or financial liabilities (Deutsche Börse AG, Frankfurt stock exchange).

- Level 2

Use of inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices.

- Level 3

Use of inputs for the measurement of the financial asset or financial liability that are not based on observable market data (unobservable inputs). As was the case in the previous year, there were no transfers between the individual levels in 2019.

Fair value hierarchy as of 31 December 2019

In EUR '000s	Total	Level 1	Level 2	Level 3
Assets				
Trade accounts receivable, at fair value through profit or loss	107,148	0	0	107,148
Other financial assets, at fair value through profit or loss	22,765	0	0	22,765
Other equity instruments, at fair value through profit or loss	826	0	0	826
Other equity instruments, at fair value through other comprehensive income	179,289	179,289	0	0
Equity and liabilities				
Borrowings from promissory notes	1,087,259	0	0	1,087,259
Other financial liabilities, at fair value through profit or loss	26,713	0	0	26,713

Fair value hierarchy as of 31 December 2018

In EUR ’000s	Total	Level 1	Level 2	Level 3
Assets				
Trade accounts receivable, at fair value through profit or loss	76,008	0	0	76,008
Other financial assets, at fair value through profit or loss	24,273	0	0	24,273
Other equity instruments, at fair value through profit or loss	654	0	0	654
Other equity instruments, at fair value through other comprehensive income	104,954	104,954	0	0
Equity and liabilities				
Borrowings from promissory notes	1,112,651	0	0	1,112,651

The following table shows the changes to Level 3 instruments for financial year 2019:

In EUR ’000s	1.1.2019	Additions	Disposals	31.12.2019
Assets				
Trade accounts receivable, at fair value through profit or loss	76,008	31,140	0	107,148
Other equity instruments, at fair value through profit or loss	24,273	0	1,508	22,765
Other equity instruments, at fair value through other comprehensive income	654	172	0	826
Equity and liabilities				
Borrowings from promissory notes	1,112,651	0	25,392	1,087,259
Other financial liabilities, at fair value through profit or loss	0	26,713	0	26,713

The following disclosures were made in the previous year 2018: As a result of the transition to IFRS 9, some trade accounts receivable were reclassified from the AC category to the FVTPL category as at 1 January 2018. The opening balance on 1 January 2018 was 71,061 thousand euros. There were no changes in fair value in the financial year. Instead, additions totalled 108,929 thousand euros and disposals stood at 97,608 thousand euros. This results in an ending balance as at 31 December 2018 of 82,382 thousand euros for trade accounts receivable measured at fair value through profit or loss.

For the individual categories of financial instruments, the following net gains/losses were shown in financial year 2019 and in the previous year:

Net gains/losses by measurement category 2019

2019	From interest	From subsequent measurement		From disposals	Net gain/loss
In EUR '000s		At fair value through other comprehensive income	Loss allowance/ losses on receivables		
Assets measured at amortised cost (AC)	3,316	0	– 35,256	0	– 31,940
Assets measured at fair value through profit or loss (FVTPL)	– 1,130	0	– 7,858	3,632	– 5,356
Assets measured at fair value through other comprehensive income (FVTOCI)	0	73,206	0	0	73,206
Liabilities measured at amortised cost (AC)	– 26,115	0	0	0	– 26,115
Total	**– 23,929**	**73,206**	**– 43,114**	**3,632**	**9,795**

Net gains/losses by measurement category 2018

2018	From interest	From subsequent measurement		From disposals	Net gain/loss
In EUR '000s		At fair value through other comprehensive income	Loss allowance/ losses on receivables		
Assets measured at amortised cost (AC)	164	0	– 43,517	0	– 43,353
Assets measured at fair value through profit or loss (FVTPL)	– 1,140	0	– 5,876	2,727	– 4,289
Assets measured at fair value through other comprehensive income (FVTOCI)	0	– 125,353	0	0	– 125,353
Liabilities measured at amortised cost (AC)	– 47,068	0	0	0	– 47,068
Total	**– 48,044**	**– 125,353**	**– 49,393**	**2,727**	**– 220,063**

Net gains and losses from assets measured at amortised cost include changes in the loss allowances, gains and losses from derecognition as well as payments received and reversals of impairment losses on previously written-off receivables.

Net gains and losses on financial liabilities measured at amortised cost consist mainly of interest expense due to banks and income arising on the remeasurement of the other financial liability from the put option in connection with the deconsolidation of MOTION TM.

As a consequence of the deconsolidation of MOTION TM with effect from 31 December 2019, the put option in place until then for the acquisition of the remaining 49 per cent of the shares in the company lapsed. As a result, the Group also disposed of other non-current financial liabilities of 7,000 thousand euros, which were recognised as an increase in equity (line item: consolidated net retained profits) without affecting profit or loss. Beforehand, due to the signing of the agreement on the Group's withdrawal from MOTION TM, the other financial liability from the put option until then measured at 13,256 thousand euros was valued at 7,000 thousand euros (in line with the compensation), resulting in income of 6,256 thousand euros presented under "Interest and similar income".

Disclosures concerning interest income and interest expense from the financial assets and financial liabilities not measured at fair value through profit or loss are based on the application of the effective interest rate method.

Offsetting of financial assets and liabilities 2019

31.12.2019 In EUR '000s	Gross amount before offsetting	Offsetting amounts	Net amount shown in the balance sheet	Fair value of financial collateral	Total net amount
Financial assets					
Trade accounts receivable	467,785	173,354	294,431	0	294,431
Other financial assets	320,651	5,984	314,667	0	314,667
Total	**788,436**	**179,338**	**609,098**	**0**	**609,098**
Financial liabilities					
Trade accounts payable	638,584	173,354	465,230	4,020	461,210
Other provisions	63,930	5,984	57,946	0	57,946
Total	**702,514**	**179,338**	**523,176**	**4,020**	**519,156**

Offsetting of financial assets and liabilities 2018

31.12.2018 In EUR '000s	Gross amount before offsetting	Offsetting amounts	Net amount shown in the balance sheet	Fair value of financial collateral	Total net amount
Financial assets					
Trade accounts receivable	471,660	165,266	306,394	0	306,394
Other financial assets	168,228	7,106	161,122	0	161,122
Total	**639,888**	**172,372**	**467,516**	**0**	**467,516**
Financial liabilities					
Trade accounts payable	688,980	165,266	523,714	4,020	519,694
Other provisions	80,966	7,106	73,860	0	73,860
Total	**769,946**	**172,372**	**597,574**	**4,020**	**593,554**

In 2019, trade accounts receivable from network operators (e.g. from bonuses, commissions) were offset against trade accounts payable and other liabilities to the same network operators. The amount set off as at 31 December 2019 was 173,354 thousand euros (31 December 2018: 165,266 thousand euros). The conditions for offsetting are met as, in this context, the various receivables from and liabilities to two network operators were remeasured, with the result that, with some insignificant exceptions, there is basically one large credit balance with those network operators. Based on an agreement with a network operator to adjust the terms of payment, monthly advance payments are made for the mobile communications services rendered by the network operator in question. These are offset on the balance sheet date and settled in the subsequent month. In addition to the offsetting amount of 5,400 thousand euros, there is also a long-term collateral payment of 4,020 thousand euros. As a result of the acquisition of the Media Broadcast Group in 2016, the company has also taken on obligations for semi-retirement and long-term work accounts. These obligations are netted with the fair values of the corresponding plan assets as of every balance sheet date. As of the balance sheet date, the netted provisions for semi-retirement amounted to 285 thousand euros (31.12.2018: 546 thousand euros). Please refer to our explanations in note 30, Other provisions.

33.2 PRINCIPLES AND OBJECTIVES OF FINANCIAL RISK MANAGEMENT AND CAPITAL RISK MANAGEMENT

With regard to its assets, liabilities and planned transactions, the freenet Group is exposed in particular to market risks, liquidity risks and default risks.

The objective of financial risk management is to constantly monitor these risks and to limit them with operational and finance-oriented activities.

The basic characteristics of financial policy, whose components are explained below, are determined by the Executive Board. In addition, certain financial transactions require the Executive Board's prior approval.

The Group Treasury department renders services to the business units and coordinates access to the financial markets. It also monitors and manages the market and liquidity risks associated with the Group's business units by way of regular internal risk reporting which analyses the risks in terms of their degree and scale. The overriding priority for the Group Treasury department is the principle of minimising risk; another important objective is to optimise net interest expense. Prudent liquidity management controlled by the Group Treasury department involves holding an adequate reserve of liquid assets, the possibility of obtaining finance by way of adequate credit line commitments, and the possibility of closing open market positions. Liquidity risks are reduced by constantly monitoring the financial status and by maintaining adequate reserves in the form of credit lines.

The Group Treasury department is responsible for monitoring the default risks of major debtors (in particular distributors, dealers and other B2B partners) as well as regular internal reporting for these risks. Receivables due from end customers are monitored in the Receivables Management department. One of the department's primary objectives is to minimise the costs attributable to the default or impairment of receivables due from end customers and sales partners.

The Group's capital risk management is related to the equity as shown in the consolidated balance sheet and to ratios derived therefrom.

The foremost objective of the Group's capital risk management is to monitor the financial covenants specified in the loan agreements, where failure to fulfil such financial covenants might lead to the loans being called in immediately. The freenet Group conducts its capital risk management on the basis of the equity ratio and the debt ratio. The equity ratio is the ratio of equity to total assets; as at 31 December 2019, it was above the target of 25.0 per cent (31 December 2019: 27.3 per cent; previous year: 27.6 per cent). At the beginning of financial year 2019, the target equity ratio was reduced from 50.0 per cent to 25.0 per cent in order to improve capital structure management. At the same time, the definition of the debt ratio relevant for management purposes was changed. The debt ratio (31 December 2019: 4.8; previous year 2018 restated: 4.2) is now determined as the ratio of net debt to EBITDA generated over the last twelve months. Net debt is defined as borrowings in the balance sheet, less liquid assets and plus net lease liabilities.

In the previous year 2018, the debt ratio relevant for management purposes (31 December 2018: 1.3) was calculated as the ratio of net borrowings to EBITDA generated in the last twelve months. Net borrowings were defined as borrowings in the balance sheet, less liquid assets, less the share of the market capitalisation of Sunrise (11,051,578 shares multiplied by the closing price) and CECONOMY (32,633,555 shares multiplied by the closing price) as at the reporting date.

As of 31 December 2019, all covenants were met. All other agreed undertakings and covenants in the loan agreement were also met as of the balance sheet date. The main financial covenants are defined in relation to the Group's equity and debt.

In order to actively manage the capital structure, the management is permitted to sell assets to reduce debt, and to implement measures such as issuing new shares.

The following information concerning the specific risks is based on information presented to the Executive Board.

33.3 MARKET RISK

Our Group's activities are primarily exposed to financial risks resulting from changes in interest rates and currency exchange rates.

33.3.1 Interest rate risk

The liabilities shown under borrowings relate to four promissory note loan (disclosed as a total net amount of 1,083.5 million euros as of 31 December 2019 (previous year: 1,114.2 million euros) – including 420.5 million euros in relation to the floating-rate tranches) and a floating-rate bank loan which is due upon final maturity (shown as a total net amount of 610.0 million euros as of 31 December 2019) (previous year: 608.6 million euros). The Group also has a revolving credit line amounting to 300.0 million euros (previous year: 300.0 million euros) which has a term of five years and had again not been drawn on by the end of the year.

As at 31 December 2019, the Group reported variable-interest financial liabilities amounting to 1,030.5 million euros (previous year: 1,059.1 million euros). In this respect, the Group is exposed to interest rate risks. Although the interest rate risks are not explicitly hedged, the cash holdings (which are invested mainly at variable interest rates) serve as a natural hedge and accordingly mitigate interest rate risks arising from the variable-interest borrowings.

The Group Treasury department continuously monitors the various opportunities available for investing the liquid assets on the basis of the day-to-day liquidity planning at its disposal as well as the various options available for scheduling borrowings. Changes in market interest rates could have an impact on net interest expense from originally variable-interest financial instruments and are included in the calculation process for earnings-related sensitivities.

In order to present market risks, the Group uses a sensitivity analysis that shows the effects of changes in interest rates on earnings and on equity.

The periodic effects are determined by relating the hypothetical changes in the risk variables to the portfolio of financial instruments as at the balance sheet date.

In the balance sheet, liabilities of 1,693.6 million euros are shown under short-term and long-term borrowings as at 31 December 2019 (previous year: 1,722.9 million euros), 1,030.5 million euros (previous year: 1,059.1 million euros) of which have variable interest rates. The variable-interest liabilities to banks as at the closing date carried interest of 1.7 per cent. Of the aggregate amount shown for borrowings as at 31 December 2019, 265.6 million euros are shown as current. Of this amount, 7.4 million euros is deferred expected payments of accrued interest, and 258.2 million euros is earmarked for repayment of financial liabilities in 2020. As of 31 December 2019, the variable portion of the loans bears interest within a corridor of 1.1 to 1.9 percent. On the basis of market estimates, we are predicting a corridor of between 1.3 and 1.9 per cent for the variable portion in 2020. This means that the cash outflows for the entire borrowings in 2020 would amount to 29.8 million euros. Based on the net position of variable-interest assets and liabilities measured at fair value, a parallel upward shift of 50 basis points in the interest rate curve would have an impact of – 1.6 million euros on earnings before tax (previous year: – 2.0 million euros), while a downward shift of 50 basis points in the interest rate curve would have an impact of 0.3 million euros on earnings before tax (previous year: 0.3 million euros).

Money market funds are subject to marginal interest rate fluctuations, so there is always a possibility of price losses. There is no significant risk, however, as the money has been invested in funds on a very short-term basis. There are no contractually defined maturity dates or interest adjustment dates, with returns coming from changes in the price of the instrument and any dividend payments. Based on the financial investments in money market funds and bonds shown in the balance sheet under other receivables and other assets, and other financial assets, an upward shift of 5 per cent in the price of the acquired shares would have an impact of 26 thousand euros (previous year: 26 thousand euros) on equity, while a downward shift of 5 per cent would have an impact of – 26 thousand euros (previous year: – 26 thousand euros) on equity.

The risk of interest rate changes is negligible for the other interest-bearing assets and liabilities.

Changes in interest rates have an impact on fixed-income financial instruments only if they are recognised at fair value. The financial liabilities of freenet are therefore not exposed to an interest rate risk because they are recognised at amortised cost.

33.3.2 Foreign currency risk

Commercial transactions in foreign currencies are conducted to a limited extent in the Group. The foreign currency risk is generally hedged by entering into forward exchange contracts, or, if necessary, by way of cash holdings denominated in foreign currency.

All in all, the Group regards the foreign currency risk as negligible.

33.3.3 Exchange rate risk

With regard to the exchange rate risks, it must be borne in mind that the company holds an interest of 24.56 per cent in the share capital of Sunrise. Sunrise uses the Swiss franc (CHF) as the reporting currency for preparing its consolidated financial statements. The exchange rate risk between the euro and Swiss franc has an impact on determining both elements of the position of our consolidated income statement "Profit or loss of equity-accounted investments", namely the share in the current profit or loss of Sunrise and also the write-downs resulting from the shadow purchase price allocation regarding Sunrise. Accordingly, this exchange rate also has an influence on the results of operations of the freenet Group; however, this is considered to be minor at present.

33.4 LIQUIDITY RISK

The Group's general liquidity risk resides in the possibility that the company might possibly be unable to meet its financial obligations, for example the repayment of borrowings, the fulfilment of purchasing obligations and the obligations from leases.

Extensive financial planning instruments are used throughout the Group to monitor and control liquidity. Different planning horizons of up to one year are considered in connection with this. Short-term liquidity planning and control are carried out on a daily basis, each for the subsequent three months. This planning is updated daily by the Group Treasury department following liaison with the Accounting and Controlling departments on the basis of current data.

The Group also controls its liquidity risk by holding appropriate bank balances and credit lines at banks, and by monitoring continuously the forecast and actual cash flows. Reconciliations are also performed for the maturity profiles of the financial assets and liabilities. The Group uses a wide range of different financing instruments to reduce liquidity risk.

The need for and investment of liquid assets in the Group is controlled centrally on the basis of several existing internal Group cash pooling agreements in which the significant companies in the freenet Group participate.

The Group anticipates that it will be able to meet its other obligations arising from operating cash flows and the proceeds of maturing financial assets.

As at the balance sheet date, the Group had not utilised its revolving credit line of 300.0 million euros (previous year: 300.0 million euros). Within narrow limits, the company may borrow for a period of five years outside of the loan agreements in order to finance future strategic investments, for example.

Securities (money market funds and bonds in the securities deposit account) can be liquidated at short notice. There are no plans to sell any of the equity investments. If it became necessary to sell these equity investments, their sale at short notice might possibly be more difficult because there is no organised capital market for these interests.

The Group's financial and operational scope is restricted by certain provisions of the loan agreements. These impose restrictions on the company, for example regarding changes in the Group's business operations, the implementation of internal Group measures to change its structure under company law, the provision of collateral, and any acquisitions or disposals of assets, especially equity interests. The following tables show the contractually agreed undiscounted interest and principal payment on the Group's original financial liabilities at the end of financial years 2019 and 2018:

Financial liabilities 31.12.2019

In EUR '000s	Carrying amount	Cash flows 2020			Cash flows 2021			Cash flows 2022 and later		
	31.12. 2019	Interest fixed	Interest variable	Pay-ments of principal	Interest fixed	Interest variable	Pay-ments of principal	Interest fixed	Interest variable	Pay-ments of principal
Trade accounts payable	465,230	0	0	465,230	0	0	0	0	0	0
Borrowings (liabilities to banks)	1,693,619	9,377	20,436	265,610	7,141	15,967	427,596	10,285	45,249	1,000,413
Other non-derivative financial liabilities	95,594	0	0	64,546	0	0	22,287	0	0	8,761
Lease liabilities	553,276	13,517	0	69,437	11,827	0	67,848	37,487	0	364,953
Other financial liabilities	0	0	0	0	0	0	0	0	0	0

Financial liabilities 31.12.2018

In EUR '000s	Carrying amount	Cash flows 2019			Cash flows 2020			Cash flows 2021 and later		
	31.12. 2018	Interest fixed	Interest variable	Pay-ments of principal	Interest fixed	Interest variable	Pay-ments of principal	Interest fixed	Interest variable	Pay-ments of principal
Trade accounts payable	523,174	10,719	0	523,174	0	0	0	0	0	0
Borrowings (liabilities to banks)	1,722,900	10,572	18,979	23,476	11,070	18,465	273,806	21,312	37,454	1,425,618
Other non-derivative financial liabilities	120,629	0	0	51,167	0	0	55,919	0	0	13,543
Other financial liabilities	237,176	0	0	0	9,771	0	24,350	36,911	0	212,826

33.5 DEFAULT RISK

The Group takes into consideration the probability of default at the date of initial recognition of assets and the existence of a significant increase in default risk during the reporting periods. To assess whether the default risk has increased significantly, the risk of a default occurring on the asset as at the reporting date is compared with the risk of a default occurring on the asset as at the date of initial recognition, giving consideration to the reasonable and supportable forward-looking information available. In this context, please refer to the explanatory notes on the IFRS 9 impairment model in note 2.7.7, Impairment of financial assets, and note 21, Receivables, other assets and other financial assets.

The assessment of the risk of default in the freenet Group is focused primarily on trade accounts receivable owed by end customers and on lease receivables. For further information, please refer to our comments under note 21, Receivables, other assets and other financial assets. Here, particular attention is devoted to the credit standing of customers and sales partners in our Group's large-scale business activities. For important contract customer sectors, credit assessments are carried out for the customers before the contract is signed.

In the ongoing contractual relationship, the implementation of a swift and regular reminder and debt collection process involving a number of debt collection companies in the benchmarking area, together with long-term debt collection monitoring and high-spender monitoring, are essential measures for minimising default risk in our Group.

An ongoing reminder and debt collection process is likewise used for receivables owed by dealers and franchise partners. Credit limits are also established and monitored. Where appropriate, a delivery block is imposed when the limit is reached.

Commercial credit insurance, moreover, safeguards us against significant default risks vis-à-vis major customers (dealers and distributors in Mobile Communications). In order to minimise credit default risk, the Group has insured a certain percentage of this revenue. Every month, the Group Treasury department notifies the insurer of the current revenue of each key account. The insurer uses this notification to calculate the revenue volume to be insured. The risks associated with uninsured customers are restricted by an internal limit system – generally, customers with a poor credit standing must pay cash in advance or the business relationship will not materialise. Default risks vis-à-vis end customers have not been hedged.

In order to determine the intrinsic value of trade accounts receivable, due account is taken of any change in creditworthiness between the point at which the terms of payment were granted and the balance sheet date. There is no significant concentration of credit default risk because the customer base is broad and because there are no correlations.

The appropriate recognition of loss allowances takes the default risks into account. Receivables and other assets are derecognised if the Group regards the receivable as irrecoverable.

Securities and liquid assets are invested mainly at major German banks. The default risk has been limited significantly as a result of the risk being spread over various banks. The Group Treasury department constantly monitors the investments' current and expected future yields.

33.6 TRANSFER OF FINANCIAL ASSETS

For some time now, the freenet Group has been offering its customers the opportunity to choose higher-value devices for an additional monthly fee with its mobile phone upgrade option. Contracts with this mobile phone upgrade option continue to be accounted for as follows: freenet has an unconditional right to payment from the customer receiving the mobile phone as part of the mobile phone upgrade option. freenet records a receivable in the amount of the present value of the additional monthly amounts to be paid by the customer for the higher-value mobile phone over the term of the contract when the contract is signed and the mobile phone is handed over. As customers' willingness to pay more for higher-value smartphones has increased, the number of postpaid customers selecting this mobile phone upgrade option has risen steadily over the past few financial years. This also means that the figure for deferred receivables relating to the mobile phone upgrade option recognised under non-current and current trade accounts receivable has climbed continuously. For the freenet Group, this means that capital tied up in assets has been increasing for years: today's higher-value smartphones are more expensive to purchase than the mobile phones of the past, and while cash outflows to acquire these devices occur before or when a contract is signed with the end customer, cash inflows from the mobile phone upgrade option are spread over the 24 months of the contract with the end customer.

Against this backdrop, factoring agreements were signed with two banks in 2014 and 2019. These are master agreements with indefinite terms. The sale of mobile phone option receivables is possible on a quarterly basis. The bank purchases the receivables with a defined del credere discount and it also bills freenet for interest and fees. The relevant risks (such as the risk of bad debt losses in particular) and opportunities are transferred to the bank, with the result that the receivables sold are derecognised in their entirety. The freenet Group continues to bear the risk of late payment, as well as being responsible for the collection and administration of the receivables sold (known as "servicing").

In the course of the financial year, income of 3.6 million euros was incurred from the sale of receivables (previous year: 2.7 million euros). All major opportunities and risks associated with ownership of these receivables were transferred to the purchaser.

Of the sales carried out on a quarterly basis in the reporting year (nominal volume 129.6 million euros, previous year: 106.7 million euros), a total of 2.8 million euros (previous year: 2.5 million euros) was expensed. 1.6 million euros (previous year: 1.4 million euros) of this amount concerns the default risk taken on from the bank (del credere discount and fees) and 1.2 million euros (previous year: 0.8 million euros) concern interest expenses from the late payment risk. As at the balance sheet date, receivables amounting to 99.8 million euros (previous year: 82.5 million euros) have been sold and derecognised but not yet paid for. The expenses of 20 thousand euros (previous year: 10 thousand euros) to be anticipated from the late payment risk and the servicing will be realised over the residual term of the receivables (6 months). The maximum loss risk for the Group is 1.0 million euros (previous year: 0.8 million euros).

The bank automatically assigns the newly defaulted receivables from the financial period ended to freenet at a fixed price each month. The buyback has no effect on either the apportionment of the risk of bad debt losses or the freenet Group's liquidity.

34 RELATED PARTY TRANSACTIONS

34.1 OVERVIEW

The following significant transactions took place between the Group and related parties:

In EUR '000s	2019	2018
Revenue attributable to billing of services		
Joint ventures		
Jestoro GmbH, Hamburg	451	413
Unconsolidated companies		
Bayern Digital Radio GmbH	379	337
Digital Radio Südwest GmbH	337	335
Hessen Digital Radio GmbH	946	601
Total	**2,112**	**1,686**

In EUR '000s	2019	2018
Expenses from the purchase of services		
Joint ventures		
Jestoro GmbH, Hamburg	8	24
Funview GmbH, Hamburg (Tochterunternehmen der Jestoro GmbH)	0	104
Check Tech Service GmbH, Hamburg (Tochterunternehmen der Jestoro GmbH)	70	92
Unconsolidated companies		
Bayern Digital Radio GmbH	104	84
Hessen Digital Radio GmbH	52	0
Total	**235**	**304**

The following significant receivables from and liabilities to related parties existed as at 31 December 2019:

In EUR '000s	31.12.2019	31.12.2018
Receivables from current service transactions		
Joint ventures		
Jestoro GmbH, Hamburg	54	59
Total	**54**	**59**

In EUR '000s	31.12.2019	31.12.2018
Liabilities from current service transactions		
Joint ventures		
Check Tech Service GmbH, Hamburg (subsidiary of Jestoro GmbH)	21	16
Total	**21**	**16**

Total remuneration of 420 thousand euros (previous year: 385 thousand euros) was granted to the employees' representatives on the Supervisory Board in financial year 2019.

All transactions were based on market prices. No collateral has been provided.

34.2 EXECUTIVE BOARD REMUNERATION

The remuneration paid to the members of the Executive Board consists of an annual fixed salary, annual variable benefits, and benefits with a long-term incentive effect. There are also pension commitments. The annual variable benefits each result from an annual target agreement in which regularly determined figures indicating the freenet Group's significant financial and non-financial performance indicators are defined as individual targets. With regard to benefits with a long-term incentive effect, please refer to the explanations made in relation to the LTIP programmes in notes 25.2, Programme 2 and 25.3, Programme 3.

The remuneration for the members of the company's Executive Board was comprised as follows in the reporting year and in the previous year:

Executive Board benefits for 2019

In EUR '000s	Fixed benefits	Other variable benefits	Subtotal	Variable benefits with long-term incentive effect[1]	Total benefits[2]
Christoph Vilanek	1,015	688	1,703	2,099	3,802
Ingo Arnold	510	287	797	419	1,216
Stephan Esch	494	229	723	611	1,334
Rickmann v. Platen	510	287	797	250	1,047
Antonius Fromme	509	287	796	250	1,046
Total	**3,038**	**1,778**	**4,816**	**3,629**	**8,445**

Executive Board benefits for 2018

In EUR '000s	Fixed benefits	Other variable benefits	Subtotal	Variable benefits with long-term incentive effect[1]	Total benefits[2]
Christoph Vilanek	765	572	1,337	– 381	956
Joachim Preisig	544	457	1,001	– 285	716
Stephan Esch	494	229	723	– 123	600
Rickmann v. Platen[3]	298	167	465	235	700
Antonius Fromme[3]	297	167	464	235	699
Total	**2,398**	**1,592**	**3,990**	**– 319**	**3,671**

[1] This relates to variable remuneration under the LTIP programme, including non-cash benefits and payments measured in accordance with IFRS 2 in the financial year.
[2] The amount of total benefits in the above table does not include pension expenses of 1,262 thousand euros (previous year: 1,177 thousand euros) and expenses for severance payments due to the premature termination of Mr Preisig's work on the Executive Board in the amount of 930 thousand euros (previous year: EUR 0). Please refer to the following explanations.
[3] Benefits in each case for the period from appointment as a member of the Executive Board, i.e. from 1.6.2018 to 31.12.2018.

The composition of the variable benefits with long-term incentive effect was as follows:

Variable benefits with long-term incentive effect 2019

In EUR '000s	LTIP Programme Benefits from changes in provision (non-cash)	LTIP Programme Benefits from payments received	Total variable benefits with long-term incentive effect
Christoph Vilanek	– 3,322	5,421	2,099
Ingo Arnold	419	0	419
Stephan Esch	611	0	611
Rickmann v. Platen	250	0	250
Antonius Fromme	250	0	250
Total	**– 1,792**	**5,421**	**3,629**

Variable benefits with long-term incentive effect 2018

In EUR '000s	LTIP Programme Benefits from changes in provision (non-cash)	LTIP Programme Benefits from payments received	Total variable benefits with long-term incentive effect
Christoph Vilanek	– 381	0	– 381
Joachim Preisig	– 285	0	– 285
Stephan Esch	– 123	0	– 123
Rickmann v. Platen	235	0	235
Antonius Fromme	235	0	235
Total	**– 319**	**0**	**– 319**

On 26 February 2014, agreements concerning the contracts of employment that grant new long-term variable salary components (LTIPs) were entered into with the members of the Executive Board. For this LTIP programme which is also designated as "Programme 2", please refer to note 25.2 of these notes to the financial statements.

When the employment contract was extended (with Mr Vilanek, granted on 4 April 2018, and with Mr Esch, granted on 19 March 2019) and the appointment to the Executive Board made (for both Mr von Platen and Mr Fromme with effect from 1 June 2018; for Mr Arnold with effect from 1 January 2019), supplemental agreements to the employment contracts granting new LTIPs were entered into with the aforementioned members of the Executive Board. For information on this LTIP programme, which is also designated “Programme 3”, please refer to note 25.3 in these notes to the consolidated financial statements.

In financial year 2019, cash payments of 5,421 thousand euros (previous year: 0) from the current LTIP programmes (Programmes 2 and 3) for present Executive Board members related to Mr Vilanek.

As at 31 December 2019, the provision for the LTIP programmes amounted to 1,305 thousand euros (previous year: 4,627 thousand euros) for Mr Vilanek, 419 thousand euros (previous year: 0 thousand euros) for Mr Arnold, 2,097 thousand euros (previous year: 1,486 thousand euros) for Mr Esch, 485 thousand euros (previous year: 235) for Mr v. Platen and 485 thousand euros (previous year: 235 thousand euros) for Mr Fromme. The provision for LTIP programmes for former Executive Board member Mr Preisig amounted to 678 thousand euros as at 31 December 2019 (previous year: 1,781 thousand euros).

In 2019, Executive Board benefits in accordance with section 314 (1) no. 6a of the German Commercial Code/German Accounting Standard no. 17 (GAS 17) amounted to a total of 6,207 thousand euros (previous year: 6,630 thousand euros). For 2019, this includes benefits with a long-term incentive effect from the grant of LTIP Programme 3 in the amount of 1,391 thousand euros (thereof 785 thousand euros for Mr Esch and 606 thousand euros for Mr Arnold). For 2018, this includes benefits with a long-term incentive effect in the amount of 2,640 thousand euros (of which 1,776 thousand euros for Mr Vilanek and 432 thousand euros in each case for Mr von Platen and Mr Fromme).

Due to the early termination of his employment on the Executive Board on 31 December 2018, Mr Preisig was granted severance payments totalling 1,010 thousand euros in the previous year, of which 930 thousand euros were in settlement of the fixed benefits and variable cash benefits for financial year 2019; these are not included in the table above entitled “Executive Board benefits for 2018”. An amount of 80 thousand euros was to compensate for the loss of entitlements under LTIP Programme 2 for the tranche relating to financial year 2019. This amount had increased the LTIP provision for Mr Preisig and is therefore included in the variable benefits with a long-term incentive effect of remuneration in the table entitled “Executive Board benefits for 2018”. The severance payments of 1,010 thousand euros were paid in cash in January 2019.

In November 2004, Mr Esch was granted an indirect pension commitment. In the financial year 2009, Mr Vilanek was granted an indirect pension commitment on the occasion of his appointment as chairman of the Executive Board as of 1 May 2009. freenet AG had taken on the pension commitment granted to Mr Preisig from the former debitel AG as of 1 September 2008. In February 2014, adjustments were made to pension commitments made to Mr Vilanek, Mr Preisig and Mr Esch. For further details, see the section “Remuneration arrangements in the event of a termination of employment” in the Executive Board remuneration report within the Group management report. Mr v. Platen, Mr Fromme and Mr Arnold were each granted defined contribution benefits on the occasion of their appointment as members of the Executive Board (on 1 June 2018 for Mr v. Platen and Mr Fromme and on 1 January 2019 for Mr Arnold), with the pension benefits being reinsured by a life insurance policy.

As at 31 December 2019, the defined benefit obligation (DBO) for Mr Vilanek amounted to 6,219 thousand euros (previous year: 4,612 thousand euros) and for Mr Esch to 5,522 thousand euros (previous year: 4,024 thousand euros). The DBOs for Messrs Preisig, Spoerr, Krieger and Berger, as former Executive Board members, totalled 17,054 thousand euros as at 31 December 2019 (previous year: 14,079 thousand euros). Due to the nature of the selected commitment, there are no defined benefit obligations for Messrs v. Platen, Fromme and Arnold.

Current service costs of 1,040 thousand euros (previous year: 1,177 thousand euros) were recognised in total in personnel expenses for the members of the Executive Board as a result of the pension commitments. In 2019, Mr Vilanek accounted for 468 thousand euros (previous year: 463 thousand euros) of this amount, Mr Esch for 272 thousand euros (previous year: 270 thousand euros), Mr von Platen for 100 thousand euros (previous year: 58 thousand euros), Mr Fromme for

100 thousand euros (previous year: 58 thousand euros), Mr Arnold for 100 thousand euros (previous year: 0 euros) and Mr Preisig for 0 euros (previous year: 328 thousand euros). The expenses for Messrs von Platen, Fromme and Arnold relate to amounts paid into a pension scheme for the defined contribution benefits granted. These benefits are not included in the above tables “Executive Board benefits for 2019” and “Executive Board benefits for 2018”.

In 2019, personnel expenses recognised for Mr Esch in relation to pension commitments included past service costs of 222 thousand euros. In the previous year, no past service costs related to the pension commitments were recognised for the members of the Executive Board.

No loans were extended to any of the Executive Board members and no guarantees or other warranties were provided for the Executive Board members.

34.3 SUPERVISORY BOARD REMUNERATION

The Supervisory Board’s remuneration is governed by the articles of association and consists of three components:

- Basic remuneration
- Attendance fees
- Performance-related remuneration

The Supervisory Board’s members receive from the company fixed basic remuneration of 30,000 euros for each full financial year of their Supervisory Board membership.

The chairperson of the Supervisory Board receives double this amount, the vice chairperson one-and-a-half times this amount.

In addition, every Supervisory Board member receives an attendance fee of 1,000 euros for each Supervisory Board meeting that he/she attends. Supervisory Board members who are members of a Supervisory Board committee – with the exception of the committee constituted in accordance with section 27 (3) of the German Co-determination Act (Mitbestimmungsgesetz MitbestG) – receive an additional attendance fee of 1,000 euros for each meeting of the respective committee that they attend. The committee chairperson receives double this amount.

In a voluntary restriction imposed on its own activities, the Supervisory Board has decided that no remuneration shall be payable for participation in telephone meetings of the Supervisory Board or its committees or for participation by telephone in meetings requiring physical attendance.

After the end of each financial year, the Supervisory Board’s members also receive variable, performance-related remuneration in the amount of 500 euros for each 0.01 euros dividend in excess of 0.10 euros per no-par-value share in the company which is distributed to shareholders for the financial year ended. The amount of the remuneration is limited to the amount owed as fixed remuneration. The chairperson of the Supervisory Board receives double this amount, the vice chairperson one-and-a-half times this amount.

For their activities during financial year 2019, the members of the company’s Supervisory Board received fixed remuneration of 405 thousand euros plus attendance fees amounting to 82 thousand euros. In addition, performance-related remuneration of 405 thousand euros was also expensed. The extent to which this performance-related remuneration will be paid out depends on the profit appropriation resolution for the financial year 2019. The aggregate expenses for Supervisory Board activities thus amounted to 892 thousand euros.

Furthermore, Supervisory Board members are reimbursed for expenses incurred in connection with the performance of their official duties, as well as for value added tax.

No loans were extended to any of the Supervisory Board members and no guarantees or other warranties were provided for the Supervisory Board members.

Individualised figures for the last two financial years are shown in the following tables. Please note that rounding differences may result from the format used for presenting subtotals and sum totals; this is because the figures have been rounded to one position after the decimal point.

Remuneration for financial year 2019

In EUR '000s	Basic remuneration	Attendance fees	Performance-related remuneration	Total
Active members				
Prof. Dr Helmut Thoma	60.0	12.0	60.0	132.0
Knut Mackeprang[1]	45.0	6.0	45.0	96.0
Claudia Anderleit[1]	30.0	5.0	30.0	65.0
Thorsten Kraemer	30.0	5.0	30.0	65.0
Marc Tüngler	30.0	7.0	30.0	67.0
Robert Weidinger	30.0	13.0	30.0	73.0
Sabine Christiansen	30.0	5.0	30.0	65.0
Thomas Reimann[1]	30.0	8.0	30.0	68.0
Fränzi Kühne	30.0	4.0	30.0	64.0
Theo-Benneke Bretsch[1]	30.0	4.0	30.0	64.0
Bente Brandt[1]	30.0	8.0	30.0	68.0
Gerhard Huck[1]	30.0	5.0	30.0	65.0
Total	**405.0**	**82.0**	**405.0**	**892.0**

[1] Employee representative in accordance with section 7 (1) clause 1 no. 1 MitbestG of 4 May 1976.

Remuneration for financial year 2018

In EUR '000s	Basic remuneration	Attendance fees	Performance-related remuneration	Total
Active members				
Prof. Dr. Helmut Thoma	60.0	24.0	60.0	144.0
Knut Mackeprang[1]	45.0	12.0	45.0	102.0
Claudia Anderleit[1]	30.0	8.0	30.0	68.0
Thorsten Kraemer	30.0	8.0	30.0	68.0
Marc Tüngler	30.0	9.0	30.0	69.0
Robert Weidinger	30.0	14.0	30.0	74.0
Sabine Christiansen	30.0	7.0	30.0	67.0
Thomas Reimann[1]	30.0	7.0	30.0	67.0
Fränzi Kühne	30.0	4.0	30.0	64.0
Theo-Benneke Bretsch[1]	18.7	3.0	18.8	40.5
Bente Brandt[1]	18.7	6.0	18.8	43.5
Gerhard Huck[1]	18.7	5.0	18.8	42.5
	371.1	**107.0**	**371.4**	**849.5**
Former members				
Ronny Minak[1]	11.4	3.0	11.3	25.7
Michael Stephan[1]	11.4	3.0	11.3	25.7
Gesine Thomas[1]	11.4	2.0	11.3	24.7
	34.2	**8.0**	**33.9**	**76.1**
Total	**405.3**	**115.0**	**405.3**	**925.6**

[1] Employee representative in accordance with section 7 (1) clause 1 no. 1 MitbestG of 4 May 1976.

35 ACQUISITIONS

On 19 December 2018, the Group had entered into a purchase agreement to acquire all shares and voting rights in The Cloud Networks Germany GmbH, Munich, and The Cloud Networks Nordic AB, Stockholm, Sweden (these companies are hereinafter referred to together as "The Cloud Group"). Once approved by the antitrust authorities, the takeover was completed on 1 January 2019 and the Group thus obtained control of this subsidiary. The date of its initial consolidation in the freenet Group is therefore 1 January 2019.

The Cloud Group's business activities consist mainly of setting up and operating a network of WiFi hotspots. The hotspots put into operation so far are primarily Internet access points in hotels, petrol stations, airports, catering outlets and other public buildings and spaces.

A fixed cash purchase price of 12,439 thousand euros was agreed. The Group may also pay an earn-out of between 0 and 10,000 thousand euros, the exact amount of which will be measured by reference to the attainment of defined targets for financial performance indicators in The Cloud Group for financial years 2019 to 2021. As part of the purchase price allocation, an amount (after discounting) of 6,570 thousand euros was recognised as a non-current other financial liability for the earn-out.

The purchase price allocation carried out in these consolidated financial statements with regard to the acquisition of The Cloud Group in accordance with IFRS 3 is final.

The following overview provides information on the assets and liabilities of The Cloud Group acquired at fair value at the time of initial consolidation:

Balance sheet of "The Cloud Group" according to HGB as of 1 January 2019 at carrying amounts

ASSETS

In EUR '000s	01.01.2019
Non-current assets	
Intangible assets	8,817
Lease assets	579
Goodwill	5,428
Fixed assets	717
Other receivables and other assets	647
Other financial assets	2,467
	18,655
Current assets	
Inventories	532
Current income tax assets	99
Trade accounts receivable	1,621
Other receivables and other assets, and other financial assets	94
Liquid assets	3,052
	5,398
Total	**24,053**

EQUITY AND LIABILITIES

In EUR '000s	01.01.2019
Non-current liabilities	
Lease liabilities	399
Deferred income tax liabilities	2,593
Other provisions	5
	2,997
Current liabilities	
Lease liabilities	180
Trade accounts payable	965
Other liabilities and deferrals	197
Other financial liabilities	450
Current income tax liabilities	235
Other provisions	20
	2,047
Total	**5,044**

The difference between assets and liabilities in the amount of 19,009 thousand euros represents the total purchase price determined at the time of initial consolidation (cash purchase price of 12,439 thousand euros plus earn-out of 6,570 thousand euros). The purchase price allocation results in goodwill of 5,428 thousand euros that is attributable mainly to future earnings opportunities in connection with the expansion of the freenet Group's offering. This goodwill has been allocated to the "Mobile Communications" cash-generating unit. In our segment reporting, The Cloud Group was allocated to the Mobile Communications segment. In addition to the goodwill, intangible assets amounting to 8,568 thousand euros were identified during purchase price allocation. Customer relationships with a useful life of between ten- and twenty-years account for 5,903 thousand euros of the intangible assets, software with a useful life of between three and six years for 2,398 thousand euros and favourable contracts with a useful life of ten years for 267 thousand euros. The subsequent amortisation of these intangible assets will result in amortisation charges of 922 thousand euros per financial year. The fair value of the receivables acquired (including other receivables and other assets as well as other financial assets) was 4,829 thousand euros as at 1 January 2019 (gross receivables of 4,951 thousand euros less loss allowances of 122 thousand euros). No contingent liabilities and no transactions required to be presented separately from the acquisition of the assets and assumption of the liabilities were identified.

The purchase price allocation was based on a forecast relevant for measurement purposes based, in turn, on the DCF method, which covered a detailed period of five years. The direct cash flow method was used to determine the fair value of the aforementioned intangible assets recognised as part of the preliminary purchase price allocation. The fair values of the customer relationships, software and favourable contracts were measured using a discounted cash flow technique and Level 3 inputs (unobservable inputs) in accordance with IFRS 13. This valuation technique is based on a cash flow forecast that a hypothetical market participant would take as the basis.

From the date of its initial consolidation (1 January 2019), The Cloud Group contributed 11.9 million euros to the Group's revenue from third parties. The contribution to the Group's EBITDA was insignificant.

36 NON-CURRENT ASSETS HELD FOR SALE, DISCONTINUED OPERATIONS AND DISPOSAL OF SUBSIDIARIES

As was the case at the prior-year reporting date, the Group had no discontinued operations or non-current assets held for sale as at 31 December 2019.

Under the agreement dated 18 December 2019 and through its performance on 31 December 2019, the Group divested itself of its 51 per cent interest in the share capital of MOTION TM. This was effected by mobilcom-debitel GmbH retiring from MOTION TM as a shareholder on the basis of a withdrawal of shares in return for compensation and MOTION TM being continued by its former shareholders.

Through this transaction, the Group lost control of MOTION TM. This company was deconsolidated on 31 December 2019, as a result of which it was fully included in the income statement for financial year 2019, but not in the consolidated balance sheet as at 31 December 2019.

MOTION TM's main activities relate to the sale/distribution of mobile communications devices, the rendering of sales services and the operation of online platforms to provide sales support to specialist dealers. In the segment reporting, this company forms part of the "Mobile Communications" segment. The requirements for a discontinued operation codified in IFRS 5 were therefore not met.

An amount of 7,000 thousand euros was agreed as compensation and is not subject to any subsequent adjustments. Of this, 6,000 thousand euros were recognised as a cash item in financial year 2019. Half of the remaining 1,000 thousand euros will be recognised as a cash item in financial year 2020 and half in financial year 2021. MOTION TM's withdrawal from the Group resulted in a net disposal for the Group of 1,108 thousand euros (cash and cash equivalents of MOTION TM less the portion of the compensation received in 2019).

The following overview provides information on the disposal of other assets and liabilities due to deconsolidation as at 31 December 2019:

ASSETS

In EUR '000s	31.12.2019
Non-current assets	
Intangible assets	27
Lease assets	1,725
Goodwill	2,010
Fixed assets	163
Other financial assets	88
	4,013
Current assets	
Inventories	4,533
Current income tax assets	4
Trade accounts receivable	27,756
Other receivables and other assets	30
Other financial assets	242
Liquid assets	1,108
	33,673
Total	**37,686**

EQUITY AND LIABILITIES

In EUR '000s	31.12.2019
Non-current liabilities	**4,731**
Non-controlling interests in equity	
Lease liabilities	1,644
Other financial liabilities	500
Other provisions	31
	2,175
Current liabilities	
Lease liabilities	306
Trade accounts payable	26,574
Other liabilities and deferrals	1,314
Other financial liabilities	1,148
Current income tax liabilities	1,431
Other provisions	73
	30,846
Total	**37,752**

MOTION TM's deconsolidation therefore led to the Group disposing of assets of 37,686 thousand euros and liabilities (including non-controlling interests in equity) of 37,752 thousand euros in total, resulting in a gain on deconsolidation of 66 thousand euros presented in other operating income.

Also as a consequence of the transaction described, the put option in place until then for the acquisition of the remaining 49 per cent of the shares in MOTION TM lapsed. As a result, the Group also disposed of other non-current financial liabilities of 7,000 thousand euros, which were recognised as an increase in equity (line item: consolidated net retained profits) without affecting profit or loss. Beforehand, due to the signing of the agreement on the Group's withdrawal from MOTION TM, the other financial liability from the put option until then measured at 13,256 thousand euros was valued at 7,000 thousand euros (in line with the compensation), resulting in income of 6,256 thousand euros presented under "Interest and similar income".

In financial year 2019, MOTION TM generated external revenue of 323.5 million euros, gross profit of 11.0 million euros and EBITDA in a small amount of insignificance for the Group.

37 DISCLOSURES PURSUANT TO SECTION 315A HGB

The average number of employees in the Group (section 314 (1) no. 4 HGB) has been shown in note 8, Personnel expenses, in these notes.

With regard to the disclosures concerning remuneration of the company's executive bodies (section 314 (1) 1 no. 6 HGB), please refer to note 34, Related party transactions.

In accordance with section 314 (1) no. 8 HGB, we hereby declare that the Declaration of Conformity in accordance with section 161 AktG was submitted by the company's Executive Board and Supervisory Board on 3 December 2019. It has been made permanently available to shareholders on the Internet at the following address: https://www.freenet-group.de/investor/corporate-governance/index.html.

A total of 1,216 thousand euros in fees was paid to the auditor in accordance with section 314 (1) no. 9 HGB during financial year 2019. Of this figure, 1,105 thousand euros is attributable to auditing services (thereof 1,102 thousand euros for the current audit for 2019 as well as 3 thousand euros for project-related audits in connection with the introduction of IFRS 16), 25 thousand euros is attributable to other assurance services (e.g. reading of quarterly reporting , plausibility assessments regarding the covenants for the loan agreements and the attainment of targets of the Executive Board for the financial year ended), 6 thousand euros is attributable to other services (in relation to IT security) and 80 thousand euros is attributable to tax consultancy services. These consist mainly of support during tax audits and tax advice on value added tax.

In accordance with section 313 (2) to (3) HGB, we provide the following overview of the companies included in the consolidated financial statements (see table on the following page):

Consolidated companies

	Share in capital in %
Fully-consolidated companies	
freenet Cityline GmbH, Hamburg	100.00
freenet.de GmbH, Hamburg	100.00
01019 Telefondienste GmbH, Hamburg	100.00
01024 Telefondienste GmbH, Hamburg	100.00
01050.com GmbH, Hamburg	100.00
freenet Datenkommunikations GmbH, Hamburg	100.00
mobilcom-debitel GmbH, Büdelsdorf	100.00
mobilcom-debitel Logistik GmbH, Schleswig	100.00
MobilCom Multimedia GmbH, Schleswig	100.00
klarmobil GmbH, Hamburg	100.00
vitrado GmbH, Hamburg (formerly new directions GmbH)	100.00
freenet Direkt GmbH, Hamburg	100.00
freenet Energy GmbH, Berlin	100.00
Stanniol GmbH für IT & PR, Oberkrämer	100.00
mobilcom-debitel Shop GmbH, Oberkrämer	100.00
callmobile GmbH, Hamburg	100.00
freenet Shopping GmbH, Hamburg	100.00
The Cloud Networks Germany GmbH, Munich	100.00
The Cloud Networks Nordic AB, Stockholm (Sweden)	100.00
Gravis-Computervertriebsgesellschaft mbH, Berlin	100.00
MOTION TM Vertriebs GmbH, Troisdorf[1]	51.00
freenet digital GmbH, Berlin	100.00
Ilove GmbH, Berlin	100.00
Lorena Medienagentur GmbH, Berlin	100.00
Ojom International GmbH, Berlin	100.00
freenet digital Espana S.L., Barcelona (Spain)	100.00
freenet digital Entretentimendo do Brasil Ltda., Sao Paulo (Brazil)	100.00
Vene International GmbH, Berlin	100.00
freenet digital Holdings Inc., Wilmington (USA)	100.00
freenet digital LLC, Wilmington (USA)	100.00
freenet digital North America Inc., Wilmington (USA)	100.00
Seedline Studios, LLC, Wilmington (USA)	100.00
Aldine Productions LLC, Wilmington (USA)	100.00
Seedling Productions LLC, Los Angeles (USA)	100.00
Sure Yield Inc Limited, Hong Kong (China)	100.00
EXARING AG, Munich	58.63
Synergy Networks GmbH, Leipzig	58.63
Taunus Beteiligungs GmbH, Cologne	100.00
MEDIA BROADCAST GmbH, Cologne	100.00
MEDIA BROADCAST Services GMBH, Cologne	100.00
Media Broadcast TV Services GmbH, Cologne	100.00
Companies accounted for using the equity method	
Jestoro GmbH, Hamburg (formerly FunDorado GmbH)	50.00
Sunrise Communications Group AG, Zurich (Switzerland)	24.56

[1] Deconsolidation as of 31.12.2019

38 EVENTS OF MATERIAL IMPORTANCE AFTER THE REPORTING DATE

No events of major significance for the freenet Group have occurred after the balance sheet date.

39 DEVELOPMENT OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Development of intangible assets, goodwill and property, plant and equipment as at 31 December 2019

In EUR '000s	Cost								
	1.1.2019	Reclassifications from the transition to IFRS 16 as of 1.1.2019	Additions basis of consolidation	Additions	Reclassifications	Disposals basis of consolidations	Disposals	Foreign currency	31.12.2019
Intangible assets									
Internally generated software	121,251	0	249	18,919	0	0	979	0	139,440
Software, licenses and right-of-use assets	176,064	0	2,665	3,249	225	260	635	0	181,308
Trademarks	346,352	0	0	0	0	1,105	0	0	345,247
Customer relationships	113,520	0	5,903	0	0	0	12,189	0	107,234
	757,187	**0**	**8,817**	**22,168**	**225**	**1,365**	**13,803**	**0**	**773,229**
Goodwill									
Goodwill	1,380,056	0	5,428	0	0	2,010	0	0	1,383,474
	1,380,056	**0**	**5,428**	**0**	**0**	**2,010**	**0**	**0**	**1,383,474**
Property, plant and equipment									
Land, property facilities and buildings	38,120	0	0	1	0	0	14	0	38,107
Switches and networks	926	0	0	0	0	0	– 2	0	928
Technical equipment and machinery	521,322	– 324,900	588	10,713	1,702	0	4,876	– 89	204,460
Other operating and office equipment	101,016	0	92	11,944	410	493	7,561	0	105,408
Prepayments made and assets under construction	2,471	0	37	2,155	– 2,337	0	3	0	2,323
	663,855	**– 324,900**	**717**	**24,813**	**– 225**	**493**	**12,452**	**– 89**	**351,226**
Total	**2,801,098**	**– 324,900**	**14,962**	**46,981**	**0**	**3,868**	**26,255**	**– 89**	**2,507,929**

	Depreciation, amortisation and impairment						Carrying amounts	
1.1.2019	Reclassifications from the transition to IFRS 16 as of 1.1.2019	Additions	Disposals basis of consolidations	Disposals	Foreign currency	31.12.2019	31.12.2019	1.1.2019
84,099	0	11,736	0	977	0	94,858	44,582	37,152
76,333	0	37,128	232	635	0	112,594	68,714	99,731
44,925	0	673	1,105	0	0	44,493	300,754	301,427
26,475	0	5,120	0	12,189	0	19,406	87,828	87,045
231,832	**0**	**54,657**	**1,337**	**13,801**	**0**	**271,351**	**501,878**	**525,355**
0	0	0	0	0	0	0	1,383,474	1,380,056
0	**0**	**0**	**0**	**0**	**0**	**0**	**1,383,474**	**1,380,056**
13,183	0	1,153	0	14	0	14,322	23,785	24,937
926	0	0	0	–2	0	928	0	0
184,033	–76,835	16,434	0	4,774	–77	118,781	85,679	337,289
66,889	0	13,896	331	7,089	0	73,365	32,043	34,127
0	0	0	0	0	0	0	2,323	2,471
265,031	**–76,835**	**31,483**	**331**	**11,875**	**–77**	**207,396**	**143,830**	**398,824**
496,863	**–76,835**	**86,140**	**1,668**	**25,676**	**–77**	**478,747**	**2,029,182**	**2,304,235**

Development of intangible assets and property, plant and equipment as at 31 December 2018

In EUR '000s	Cost					
	1.1.2018	Change in the basis of consolidation	Additions	Reclassi-fications	Disposals	31.12.2018
Intangible assets						
Internally generated software	106,436	0	15,095	0	280	121,251
Software, licenses and right-of-use assets	171,817	0	4,897	24	674	176,064
Trademarks	346,352	0	0	0	0	346,352
Customer relationships	113,520	0	0	0	0	113,520
	738,125	**0**	**19,992**	**24**	**954**	**757,187**
Goodwill						
Goodwill	1,379,919	137	0	0	0	1,380,056
	1,379,919	**137**	**0**	**0**	**0**	**1,380,056**
Property, plant and equipment						
Land, property facilities and buildings	37,983	0	138	0	1	38,120
Switches and networks	929	0	0	– 3	0	926
Technical equipment and machinery	513,595	0	20,099	660	13,032	521,322
Other operating and office equipment	90,494	0	17,482	264	7,224	101,016
Prepayments made and assets under construction	1,143	0	2,277	– 945	4	2,471
	644,144	**0**	**39,996**	**– 24**	**20,261**	**663,855**
Total	**2,762,188**	**137**	**59,988**	**0**	**21,215**	**2,801,098**

Depreciation, amortisation and impairment						Carrying amounts	
1.1.2018	Change in companies included in consolidation	Additions	Reclassifications	Disposals	31.12.2018	31.12.2018	**01.01.2018**
73,241	0	11,138	0	280	84,099	37,152	33,195
37,792	0	39,207	0	666	76,333	99,731	134,025
44,124	0	801	0	0	44,925	301,427	302,228
19,461	0	7,014	0	0	26,475	87,045	94,059
174,618	**0**	**58,160**	**0**	**946**	**231,832**	**525,355**	**563,507**
0					0	1,380,056	1,379,919
0	**0**	**0**	**0**	**0**	**0**	**1,380,056**	**1,379,919**
12,022	0	1,161	0	0	13,183	24,937	25,961
906	0	20	0	0	926	0	23
136,177	0	55,668	– 3	7,809	184,033	337,289	377,418
59,221	0	14,187	3	6,522	66,889	34,127	31,273
0	0	0	0	0	0	2,471	1,143
208,326	**0**	**71,036**	**0**	**14,331**	**265,031**	**398,824**	**435,818**
382,944	**0**	**129,196**	**0**	**15,277**	**496,863**	**2,304,235**	**2,379,244**

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Büdelsdorf, 9 March 2020

freenet AG

The Executive Board

Christoph Vilanek

Ingo Arnold

Stephan Esch

Antonius Fromme

Rickmann v. Platen

INDEPENDENT AUDITOR'S REPORT

To freenet AG, Büdelsdorf

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

AUDIT OPINIONS

We have audited the consolidated financial statements of freenet AG, Büdelsdorf, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss, consolidated statement of comprehensive in-come, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of freenet AG for the financial year from January 1 to December 31, 2019. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German

professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Revenue recognition
2. Recoverability of goodwill and intangible assets
3. Recoverability of deferred tax assets on loss carryforwards
4. Impact of the initial application of IFRS 16 on lease accounting

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

1. Revenue recognition

1. Revenue totaling EUR 2.9 billion is reported in the consolidated income statement in freenet AG's consolidated financial statements.

   In the case of mobile communications contracts with terminal equipment sold in the postpaid segment, the transaction price agreed over the entire contract term is allocated to the hardware delivery and mobile communications service obligations on the basis of the relative individual sales prices and recognized as revenue in accordance with the satisfaction of the respective service obligation. Contract acquisition costs are capitalized and amortized over the underlying contract term. Network operator commissions received are recognized as reductions in the cost of materials and therefore do not represent revenue. To the extent that these relate to the term of the contract, they are deferred and recognized as expenses on a straight-line basis over the term of the contract. If sales partners in indirect sales provide hardware or other services to end customers in order to acquire customers, this does not constitute sales revenue for the freenet Group if the freenet Group does not have a principal position due to the lack of actual control over the hardware or other services provided. Any hardware or other customer acquisition services provided to end customers by the sales partner in indirect sales are subject to capitalization as other assets and are amortized on a straight-line basis over the term of the contract to reduce sales.

   In order to correctly apply the accounting standard on revenue recognition (IFRS 15), the Group has implemented respective systems and processes, primarily for the mobile communications business.

   The accounting treatment of revenue is material in terms of the amount and subject to considerable risk due to the complexity of the systems necessary for properly recording and identifying revenue and the impact of everchanging business, price and tariff models (including tariff structures, customer discounts, incentives). In addition, revenue recognition is based to a large extent on estimates and assumptions made by the executive directors. Against this background

and taking into consideration the associated considerable uncertainties, revenue recognition was of particular significance during our audit.

2. In light of the knowledge that the complexity and the estimates and assumptions that have to be made give rise to an increased risk of accounting misstatements, our audit included assessing the freenet Group's processes and controls for recognizing and deferring revenue. We also assessed the IT system environment for invoicing and measurement and other relevant systems supporting the accounting treatment of revenue, including the implemented controls, as well as the invoicing and measurement systems up to entries in the general ledger. We also assessed the identification of performance obligations with respect to customer contracts, and evaluated whether these performance obligations are satisfied over time or at a point in time. As part of this, we assessed whether revenue had been recognized completely and accurately and verified the allocation to the correct periods or the deferral. We also examined customer invoices and the associated customer contracts and receipts of payment on a test basis and obtained balance confirmations.

   We applied consistent audit procedures for the audit of the subsidiaries included in the consolidated financial statements to ensure that we responded appropriately to the inherent audit risk in this audit area.

   We were able to satisfy ourselves that the systems, processes and controls in place are appropriate and that the estimates and assumptions made by the executive directors are sufficiently documented and substantiated to ensure that revenue is appropriately accounted for.

3. The Company's disclosures on revenue are contained in note 4 of the notes to the consolidated financial statements of freenet AG.

2. Recoverability of goodwill and intangible assets

1. Goodwill of EUR 1,383.5 million (28.5% of consolidated total assets and 104.7% of Group equity) is reported under the "Goodwill" balance sheet item in the Company's consolidated financial statements. Assets amounting to EUR 501.9 million (10.4% of consolidated total assets and 38.0% of Group equity) are reported under "Intangible assets". The Company allocates goodwill to the cash-generating units within the freenet AG Group. Goodwill and intangible assets with indefinite useful lives are tested for impairment annually or if there are indications of impairment. Intangible assets with finite useful lives are tested for impairment if there are indications of impairment. The impairment tests are carried out by comparing the carrying amounts of the cash-generating units or intangible assets with their respective recoverable amounts. The recoverable amount is calculated on the basis of fair value less costs to sell. This is based on the present value of future cash flows since market values are not generally available for the individual cash-generating units. The discounted cash flow models are based on planning approved by the executive directors for the period up to 2023, which is extrapolated on the basis of assumptions about long-term growth rates. The discount rate used is the weighted average cost of capital for the relevant cash-generating unit. The result of this measurement depends to a large extent on the executive directors' assessment of future cash inflows of the respective cash-generating unit and the discount rate used, and is therefore subject to considerable uncertainty. Against this background and due to the underlying complexity of the measurement models, this matter was of particular significance during our audit.

2. As part of our audit, we assessed the methodology employed for the purposes of performing the impairment tests, among other things. We evaluated the appropriateness of the future cash inflows used in the measurement, among other things by comparing this data with the current budgets in the plan prepared by the executive directors and approved by the supervisory board, and reconciling it against general and sector-specific market expectations. With the knowledge that even relatively small changes in the discount rate applied can have a material impact on the recoverable amounts calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the measurement model. Furthermore, we assessed the additional sensitivity analysis for the cash-generating units and, taking into account the information available, determined that the respective goodwill and intangible assets were adequately covered by the discounted future cash flows. Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

3. The Company's disclosures on goodwill and intangible assets are contained in notes 15 and 16 to the consolidated financial statements.

3. Recoverability of deferred tax assets on loss carryforwards

1. freenet AG's consolidated financial statements include deferred tax assets on loss carryforwards amounting to EUR 283.1 million, which the Company's executive directors believe can likely be utilized in the future. The projected results in accordance with IFRSs, which serve as the starting point for tax planning, are derived from the multi-year plan for 2020 to 2023. From our point of view, this matter is of particular significance, as the multi-year projections serving as the basis for the recoverability of deferred tax assets on loss carryforwards are highly dependent on the estimates and assumptions of the executive directors and are subject to a high level of uncertainty.

2. As part of our audit of the recoverability of deferred tax assets, we included specialists from our Tax department in our audit team. With their support, we assessed, among other things, the methodological process to carry out recoverability testing on tax assets recognized in relation to loss carryforwards. We also assessed the recoverability of the deferred tax assets on loss carryforwards, as described above, on the basis of the plan prepared by the executive directors with respect freenet AG's future taxable income and that of its consolidated income tax group subsidiaries, and we assessed the appropriateness of the planning premises used. Our assessment also covered the correctness of the reconciliation of the projected results to the tax result, compliance of the method used to calculate deferred taxes with IAS 12 and the mathematical accuracy of the calculations. We were able to satisfy ourselves as of the assumptions made by the executive directors and the method applied.

3. The Company's disclosures pertaining to deferred tax assets on loss carryforwards are contained in notes 2.14 and 18 to the consolidated financial statements.

4. Impact of the initial application of IFRS 16 on lease accounting

1. In the Company's consolidated financial statements right-of-use assets of EUR 452.0 million (9.3% of total assets) and lease liabilities of EUR 553.3 million (11.4% of total assets) are reported as of the balance sheet date. The initial application of the new accounting standard on leases (IFRS 16) had material effects on the carrying amounts in the opening balance sheet and subsequent measurement in the financial year. The Company transitioned to IFRS 16 using the modified retrospective approach. The comparative information for prior-year periods was not restated. Due to the large number of leases and the resulting transactions, the Company has put in place Group-wide processes and controls for the full and correct recognition of leases. Initial application also necessitated the implementation of two centralized IT systems to report leases. The new IFRS 16 requires that the executive directors make estimates and judgments for certain areas, which were assessed for appropriateness in the context of our audit. This applies in particular to the determination of the incremental borrowing rate and estimates regarding the exercise of options impacting the term of the lease.

   Against this background and due to the complexity of the new requirements of IFRS 16, lease accounting was of particular significance in the context of our audit.

2. As part of our audit and with the assistance of our internal specialists, we assessed, among other things, the appropriateness and effectiveness of the processes and controls established by the Group to record leases. This also applies to the implementation of the two centralized IT systems to report leases and to the required modifications of existing systems in order to process the transactions.

   In addition, as part of our audit and with the assistance of our internal specialists we assessed the impact of the initial application of IFRS 16. Together we assessed the implementation work and evaluated the design of the processes set up to report the transactions in accordance with IFRS 16 and of the IT systems in place to support the implementation of the new requirements. We inspected the lease agreements on a test basis, verified the identification of lease and non-lease components and assessed whether these were completely and accurately recorded in the centralized systems newly implemented to report leases. In particular, we interviewed Company employees and inspected the appropriate evidence to assess the determination of the incremental borrowing rate and the estimates regarding the exercise of options impacting the lease term.

   We were able to satisfy ourselves that the systems and processes put in place and adapted to IFRS 16, and the controls, are appropriate. Furthermore, we verified that the estimates and assumptions made by the executive directors are sufficiently documented and substantiated to ensure that leases are appropriately accounted for in accordance with IFRS 16 as applied for the first time.

3. The Company's disclosures on lease accounting as well as the impact of the initial application of IFRS 16 are contained in sections 2.5, 9 and 28 of the notes to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section i "Corporate Governance" of the group management report,
- the non-financial group statement pursuant to § 315b Abs. 1 HGB included in section h "Non-Financial Statement" of the group management report.

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation, and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on May 16, 2019. We were engaged by the supervisory board on September 24, 2019. We have been the group auditor of freenet AG, Büdelsdorf, without interruption since the financial year 2014.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Niklas Wilke.

Hamburg, 10 March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

signed:
Niklas Wilke
Wirtschaftsprüfer
(German Public Auditor)

signed:
ppa. Benjamin Röhe
Wirtschaftsprüfer
(German Public Auditor)